

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

Stale or Moot Docketed Proceedings

1993 Annual Access Tariff Filings
Phase I

CC Docket No. 93-193

1994 Annual Access Tariff Filings

CC Docket No. 94-65

AT&T Communications Tariff F.C.C.
Nos. 1 and 2, Transmittal Nos. 5460, 5461,
5462, and 5464 Phase II

CC Docket No. 93-193

Bell Atlantic Telephone Companies Tariff
FCC No. 1, Transmittal No. 690

CC Docket No. 94-157

NYNEX Telephone Companies Tariff
FCC No. 1, Transmittal No. 328

**Direct Case of Verizon
April 11, 2003**

EXHIBIT C

**GTE Direct Case
filed August 14, 1995**

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Phase II

CC Docket No. 94-157

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

GTE's DIRECT CASE

GTE Service Corporation and its affiliated
domestic telephone operating companies

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SUMMARY

The SFAS-106 accounting change qualifies for exogenous treatment as it is an administrative action beyond the control of carriers. The record has shown over a period of almost four years that the issues underlying this claim have been continuously and consistently supported by carriers in Notices to Adopt, Direct Cases, Rebuttals, and Tariffs and by the Court. In order to refresh the record, this filing reexamines why exogenous treatment is appropriate, answers questions put forth by the Commission and allegations by entities opposing exogenous treatment, and reestablishes the exogenous request. Exogenous treatment is warranted because:

1. The issuance of SFAS-106 by the Financial Accounting and Standards Board ("FASB") and subsequent adoption by the Commission significantly altered the recognition of the costs of employer-provided benefits to retirees in a manner beyond the control of the carriers.
2. The Godwins study demonstrated that, at the time of the initial exogenous claim, the adoption of SFAS-106 would have minimal impact on the Gross National Product - Price Index ("GNP-PI") used for price cap purposes. This impact was taken into account by GTE in its tariff filing. Further analysis demonstrates that the passage of time has not altered the initial results of the Godwins study.
3. The Godwins study demonstrated that there will be a disproportionate impact of SFAS-106 on price cap exchange carriers compared to employers generally. GTE concurred in the results of the Godwins study. This study showed that 84.8 percent of the costs resulting from the impact of SFAS-106 on the GNP-PI and on the wage rate will uniquely and disproportionately affect exchange carriers as

a class, if not individually. GTE's exogenous claim was accordingly reduced to incorporate this 84.8 percent factor. Indeed, a recent analysis of the Godwins study concludes that the original estimate was very conservative and nothing has occurred since SFAS-106 adoption that would change this factor.

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GTE's DIRECT CASE

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") hereby submit their Direct Case with regard to the issues designated for investigation by the Commission's Order Designating Issues for Investigation (the "*Order*"), DA 95-1485 (released June 30, 1995).

BACKGROUND

The Financial Accounting Standards Board ("FASB") prescribed that Statement of Financial Accounting Standards Number 106 ("SFAS-106") be effective for fiscal years beginning December 15, 1992. SFAS-106 recognizes Other Postretirement Employee Benefits ("OPEBs") as a form of deferred compensation earned by employees as they provide service to the employer. Recognition of OPEBs over the relevant employee service period is accomplished under the principals of accrual

accounting. Previously the employer accounted for benefits provided to retirees on a Pay-As-You-Go ("PAYGO") basis where an expense is recorded only as claims are paid.

The amount accrued as the cost of OPEBs for a period is the net periodic postretirement benefit cost. The components of net periodic costs defined by SFAS-106 are Service Cost, Interest Cost, Actual Return on Plan Assets, Amortization of the Transition Obligation, Amortization of Unrecognized Prior Service Costs, and Amortization of Gain or Loss Deferred.

On December 26, 1991, the Commission approved the requests of GTE and Southwestern Bell Telephone Company to adopt SFAS-106 accounting for OPEBs and authorized all subject carriers to adopt SFAS-106 accounting on or before January 1, 1993, using the amortization method of recognizing the transition obligation.¹

Bell Atlantic, U S WEST, and Pacific Bell filed tariffs on February 28, 1992, April 3, 1992, and April 16, 1992, respectively, to increase the limits set on their rates under the price cap plan in order to recognize accounting changes for postretirement benefits. On April 29, 1992,² the Commission suspended the Bell Atlantic and U S WEST tariffs for five months and designated for investigation issues arising from the carriers' claims

¹ Southwestern Bell/GTE Service Corporation, Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, AAD 91-80, Order, 6 FCC Rcd 7560 (1991) ("*SFAS-106 Order*").

² Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other than Pensions," CC Docket No. 92-102 ("*D. 92-101*"), Order of Investigation and Suspension, 7 FCC Rcd 2724 (1992) (by Chief, Common Carrier Bureau) ("*OPEB Investigation*").

that the incremental change in accounting cost should be treated as a one-time exogenous cost change under price caps. Since the issues raised in the tariff filings affected all price cap LECs, the Commission designated all price cap LECs as parties to the proceeding.

On January 22, 1993, the Commission released its Memorandum Opinion and Order in CC Docket No. 92-101 (the "*OPEB Order*").³ The Commission found that the price cap LECs "have not met their burden of demonstrating that implementation of SFAS-106 should be considered an exogenous cost change under the Commission's price cap rules."⁴ In addition, the Commission stated that it did "not foreclose these carriers or others from making a more persuasive showing in the context of the 1993 annual access tariff filings."⁵ The *OPEB Order*⁶ specifically left the door open for further review of exogenous treatment of the Transition Benefit Obligation ("TBO") and suggested the annual 1993 access tariff filings as a possible forum for such consideration: "Our decision in this case is not intended to foreclose further consideration of exogenous treatment of TBO amounts...."⁷

³ Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other than Pensions," Memorandum Opinion and Order, 8 FCC Rcd 1024 (1993) (the "*OPEB Order*"), *remanded*, *Southwestern Bell Tel. Co. v. FCC*, 28 F.3d 165 (D.C. Cir. 1994) ("*Southwestern Bell*").

⁴ *OPEB Order*, 8 FCC Rcd at 1024-1025.

⁵ *Id.*, 8 FCC Rcd at 1025.

⁶ *Id.*, 8 FCC Rcd at 1037.

⁷ *Id.*

Based on this decision, GTE filed its 1993 Annual Access Tariff Filings on April 2, 1993.⁸ Included in these filings was a request to include the incremental portion of the amortization of the TBO plus interest cost on the accumulated postretirement benefits obligation as an exogenous cost.

Southwestern Bell sought judicial review of the *OPEB Order* in the United States Court of Appeals for the District of Columbia Circuit. The Court in *Southwestern Bell* found that the Commission had not adhered to its own criteria for exogenous cost treatment and remanded "to the FCC to consider the LECs' request for exogenous cost treatment of their SFAS-106 incremental costs in a manner consistent with this opinion and with the LEC Price Cap Order and the LEC Price Cap Reconsideration."⁹

The *Order* (at para. 15) seeks to determine whether the assumptions that individual LECs made in calculating the costs of postretirement benefits are just and reasonable, in accordance with the Commission's rules, and in the public interest; and "[b]ecause the record in that proceeding [*D. 92-101*] is also stale," the Commission seeks "in the current investigation to refresh the record on the various issues...."

I. DESIGNATED ISSUES

Issue A: Have individual LECs correctly, reasonably and justifiably calculated the gross amount of SFAS-106 costs that may be subject to exogenous treatment under price cap regulation?

GTE has properly and justifiably calculated its exogenous amounts based on the impact of implementing SFAS-106. Conservative, reasonable, and justifiable estimates

⁸ See GTE Telephone Operating Companies 1993 Annual Access Tariff Filing Transmittal No. 781 and GTE System Telephone Companies 1993 Annual Access Tariff Filing Transmittal No. 38 dated April 2, 1993 (the "1993 GTE Filings").

⁹ *Southwestern Bell*, 28 F.3d at 173.

of economic and demographic events as suggested by an outside actuarial agency¹⁰ were used to calculate the gross impact of providing current and future retiree benefits. Included in the estimated impact are significant factors unique to GTE, such as contractual obligations and employee demographics that if altered by the Commission in an attempt to create an industry standard would dramatically affect the integrity of the estimated impact.

Issue B: Should exogenous claims be permitted for SFAS-106 costs incurred prior to January 1, 1993, the Commission's date for mandatory compliance?

Since the FASB and the Commission encouraged adoption of SFAS-106 prior to January 1, 1993, exogenous claims for the impact of SFAS-106 not otherwise included in an annual access tariff filing should be permitted.

Issue C: Have the individual LECs correctly and reasonably allocated and separated amounts associated with implementation of SFAS-106 in accordance with the Commission's rules and Responsible Accounting Officer (RAO) letters?

To the gross amount noted in Issue A, GTE allowed for the proper assignment of nonregulated results, separation of expense and capital components, separation into a state and interstate component (Part 36) and allocation of costs to baskets (Part 69). The effects of *RAO Letter 20*¹¹ were followed as the rate base was reduced by the unfunded SFAS-106 liability. A further adjustment to reduce the exogenous claim was made based on an estimate of the amount already included in the price cap formula by the Godwins study.

¹⁰ GTE uses Towers Perrin as its actuary.

¹¹ Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, RAO Letter 20, 7 FCC Rcd 2872 (1992) ("*RAO Letter 20*").

Issue D: How should Voluntary Employee Benefit Association (VEBA) trusts or other funding mechanisms for these expenses be treated: (1) If implemented before price caps; (2) If implemented after price caps, but before the change required by SFAS-106; and (3) If implemented after the change in accounting required by SFAS-106?

Issue E: Should exogenous treatment for SFAS-106 amounts be limited to costs that are funded?

Issues D and E will be addressed together since the issue of funding is in both. Funding is a logical step in the accounting and provisioning of retiree benefits. GTE has consistently maintained that the decision on when and how much should be funded must rest with the management of a company. The use of VEBA trusts was deemed a prudent business decision by management to gain the benefits granted by existing tax regulations even before the implementation of SFAS-106. Exogenous treatment should not be limited to only costs that are funded.

Issue F: Should exogenous treatment be given for amounts associated with employee interests that have vested?

SFAS-106 benefits vest only upon retirement. Unlike pension benefits accounted for under SFAS-87, employees do not earn a right to SFAS-106 benefits before retirement that travels with them should they leave the Company. The calculation of the impact of SFAS-106 includes estimates of how many employees actually will reach retirement, vesting is already a factor in calculating the exogenous claim. Therefore, significant changes affecting the estimate of future numbers of retirees can be handled by a true-up to the exogenous claim as advocated by GTE in numerous filings.

Issue G: How should the deferred tax benefit applicable to OPEBs be treated for purposes of exogenous adjustments?

SFAS-106 requires that the expenses related to providing retiree benefits be recognized as they are earned rather than as they are paid. Current tax regulations

only allow actual cash payments to be recognized when computing current taxes payable. In the years immediately after SFAS-106 recognition, these differences will create temporary deferred tax assets on the books of GTE when SFAS-106 accruals exceed PAYGO amounts. GTE properly noted this effect in its *1993 GTE Filings* and volunteered a method to true-up this claim in future years as this temporary difference reverses over time.

II. SPECIFIC INFORMATION REQUIREMENTS

(1) Responding to paragraph 17 of the *Order*, the required data for GTE is furnished.

Paragraph 17 of the *Order* calls for each Local Exchange Carrier ("LEC") to "explain the derivation of the gross amount of incremental costs that is the basis of the exogenous claim including:"

(1) The date the company implemented SFAS-106.

GTE formally implemented SFAS-106 on January 1, 1993.

(2) The cost basis of the pay-as-you-go amounts that supported the rates in effect on the initial date that the carrier became subject to price cap regulation.

For GTE Telephone Operations, the pay-as-you-go amount in 1990 was \$10.9 million. GTE became subject to price cap regulation on October 4, 1990.¹² In the *LEC Price Cap Order*, the FCC adopted a set of final rules to begin price cap regulation of LEC interstate access services effective January 1, 1991.

(3) The effect of the price cap formula on that amount up to the date of conversion to SFAS-106.

¹² Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd 6786 (1990), and *erratum*, 5 FCC Rcd 7664 (1990) ("*LEC Price Cap Order*"), *modified on recon.*, 6 FCC Rcd 2637 (1991) ("*LEC Price Cap Reconsideration Order*"), *aff'd sub nom.* National Rural Telecom Association v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

Assuming that the PAYGO amounts were inherent in the beginning rates that established the Price Cap Index ("PCI") at 100, the amount would increase or decrease as the PCI increased or decreased over time. Rates have generally decreased under price caps much more than the 1990 \$10.9 million PAYGO amount, however, it is impossible to determine if the PAYGO amounts in the initial rates have been eliminated or at least reduced to a lower amount.

- (4) The carrier's actual cash expenditures related to SFAS-106 for each year since the implementation of price caps, but prior to the implementation of SFAS-106 accounting methods.

GTE's PAYGO amounts for 1991 and 1992 were \$14.4 million and \$19.5 million respectively.

- (5) The treatment of these costs in reports to the Securities and Exchange Commission (SEC) and to shareholders, including specific citations to or excerpted materials from, such reports to indicate the amount of liability each party has projected for OPEBs.

The annual report for each of the GTE legal entities contains a reference to SFAS-106 in the footnote section addressing retirement plans. An example of the disclosures for GTE South and GTE Florida are included as Attachment I. In addition, the 10-K filing with the Securities and Exchange Commission contains a complete copy of the annual report. There is no additional verbiage related to SFAS-106 in the 10-K filing. The financial statements for the former Contel legal entities contain a reference to SFAS-106 in the footnote section. (See Attachment I.)

- (2) **Responding to paragraph 18 of the *Order*, GTE furnishes the required data. GTE maintains that the PAYGO amounts would be the same regardless of the implementation of SFAS-106.**

Paragraph 18 of the *Order* directs the LECs to:

- (1) Describe each type of benefit being provided that is covered by the SFAS-106 accounting rules.

GTE provides its retirees medical and life insurance benefits, dental coverage and reimbursement of Medicare Part B premiums. The level of benefits varies by jurisdiction, employee group, and age group.

- (2) Provide on a year-by-year basis what the pay-as-you go amounts would have been had the company not implemented SFAS-106 methods.

The amounts requested are included in the response to paragraph 17. These amounts would not have changed due to the adoption of SFAS-106.

- (3) Describe the forms of postretirement benefit accrual accounting, if any, that were utilized before the effective date of price cap regulation.

Prior to the effective date of price cap regulation, GTE accounted for postretirement benefits on a cash basis. No form of postretirement benefit accrual accounting existed. Former Contel entities recognized life insurance benefits in the year paid by expensing the annual life insurance premiums. Contel also adopted accrual accounting for health care costs beginning in 1987, which equates to a partial recognition of additional cost as defined by SFAS-106.

- (4) Describe the type and provide the level of SFAS-106 type expenses reflected in rates before they were adjusted for any exogenous treatment related to SFAS-106.

See the answer to question 5 below.

- (5) Provide the level of SFAS-106 expense that was reflected in the rates in effect on the initial date that the carrier became subject to price cap regulation.

GTE's interstate access rates did not reflect any SFAS-106 type expenses before the 1993 adjustment for exogenous treatment. The starting interstate access rates of former Contel companies were based on partial accrual accounting adopted by Contel in 1987. Contel's starting access rates reflected \$12 million of expense representing partial recognition of SFAS-106.

- (3) Responding to paragraph 19 of the *Order*, GTE points out that the *SFAS-106 Order* specifically stated that carriers could implement SFAS-106 on or before January 1, 1993.**

Paragraph 19 of the *Order* notes that some LECs have included, in their claims for exogenous treatment of SFAS-106, costs incurred before January 1, 1993, which is prior to the date that the Commission authorized adoption of SFAS-106 accounting methods. LECs are asked to comment on whether such costs should be permitted for exogenous treatment. The *SFAS-106 Order* (at para. 3) very explicitly stated that carriers could "implement SFAS-106 on or before January 1, 1993." Those LECs that chose to follow that authorization and reflect SFAS-106 accruals in 1991 and 1992 results should not be penalized by not receiving exogenous treatment for those accruals.

- (4) Responding to paragraph 20 of the *Order*, GTE furnishes the required data except for those items detailed below.**

Paragraph 20 of the *Order* requests the following information: (1) the amount associated with implementation of SFAS-106 for the total company (including telephone operations and nontelephone operations); (2) an explanation of how the carrier arrived at the total company SFAS-106 amounts; (3) the amounts allocated to the telephone operating companies, including the specific Part 32 Accounts used and the amounts allocated to each of those accounts; (4) the method of allocating amounts to the telephone operating companies (head counts, actuarial studies, etc.); (5) the amounts allocated between regulated and non-regulated activities of the telephone company, with a description and justification of the methodology for the allocations; and (6) the allocation of costs to baskets, by year.

In Attachment III (Summary of Exogenous OPEB Costs) of the *1993 GTE Filings*, each request included in this paragraph except for the specific Part 32 Accounts used is detailed.¹³ The Part 32 data is not supplied as it would be extremely voluminous.

As noted on the Summary of Exogenous OPEB Costs, a separate expense and rate base impact of SFAS-106 adoption is calculated. A discussion of the methodology used in determining the SFAS-106 impact and the assumptions used is included *infra*. Lines 1 and 2 are the summation of the TBO amortization and interest costs for each business unit on a total company basis.

Line 3 reduces the estimated expense amounts by the return on assets prefunded into VEBA trusts by GTE. The rate of return used was 8.0 percent.

Line 4 further reduces the SFAS 106 estimated impact by the PAYGO amount estimated for 1993. Thus only the incremental impact of the adoption of SFAS 106 is included in the claim for exogenous treatment.

Line 5 is the total of Lines 1 through 4.

Line 6 reduces the total company SFAS 106 impact by an amount estimated to reflect the portion attributable to nonregulated operations. The factor used is based on a study of the historical impact of nonregulated transfers on each business unit. These impacts are weighted to achieve a composite factor for this purpose.

Line 7 contains a similar historical study (as in Line 6) of activity to estimate the proper amount attributable to capital accounts.

Line 8 is Line 5 less Lines 6 and 7.

¹³ Attachment VII of this document contains the *1993 GTE Filings* Attachment III.

Line 9 reduces the regulated incremental expense impact of adopting SFAS-106 by the percentage calculated in the Godwins Study¹⁴ to be reflected in the GDP-PI.

Line 10 is the amount subject to separations (Line 8 time Line 9).

Line 11 represents the composite factor of interstate access expense to total company amounts subject to separation.

Line 12 is the interstate access expense resulting from adoption of SFAS-106 and is the product of Lines 10 and 11.

Line 13 begins the rate base impact calculation. The capitalized portion of the expense impact as calculated on Line 7 is included on Line 13.

Line 14 is the unfunded liability as calculated above on Line 8.

Line 15 is the balance of current deferred income taxes which will have an asset balance in years immediately after SFAS-106 adoption.

Line 16 sums Lines 13 through 15 and represents the total unseparated rate base impact.

Line 17 represents the composite factor of interstate access rate base to totally company amounts subject to separation.

Line 18 is the separated rate base impact.

Line 19 is the authorized rate of return.

Line 20, the product of Lines 18 and 19, is the net income effect of rate base impacts.

Line 21 represents the composite factor of the gross to net multiplier for determining the tax impact of rate base.

¹⁴ See USTA's Direct Case Attachment C in this proceeding for a copy of the original Godwins study.

Line 22 is the product of Lines 20 and 21.

Line 23 is the same adjustment used in Line 9 and is multiplied by Line 22 to achieve the recovery of rate base sought.

Line 26 represents the net recovery sought.

The gross SFAS-106 amounts reflected on Lines 1 and 2 are calculated for each GTE Telephone Operating Company and GTE System Telephone Company business unit. This calculation is segregated into management and nonmanagement groups. The calculations are based on actuarial studies prepared by GTE's outside actuary. These calculations are based on many factors that are common to each business unit and particular contractual obligations and demographic factors of that unit.

Specific factors common among business units are included in Attachment II, Summary of Plan Provisions for January 1, 1993 Retiree Welfare Valuation. These assumptions can be grouped into three different types: demographic assumptions; economic assumptions; and medical claims cost assumptions.

Demographic Assumptions: The demographic assumptions with respect to rates of retirement, termination, and mortality were adopted by GTE based upon the recommendation of its actuary. GTE seeks to use conservative estimates of these factors to reduce the potential for future changes, thereby reducing volatility of SFAS-106 results. To the extent that future studies reveal a change in the pattern of experience, revisions to these assumptions will be made as deemed appropriate.

Economic Assumptions: The economic assumptions are: the interest discount rate, the expected rate of return on plan assets and the salary increase assumption, and the health care cost trend rate.

1. The interest discount rate under SFAS-106 and the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions), is evaluated each year to reflect prevailing interest rates on long-term high quality fixed income investments.
2. The expected rate of return on plan assets and the salary increase assumptions reflect GTE's best estimate of long term future experience with respect to each of these assumptions.
3. The health care cost trend rate assumption is graded by calendar year. The short term trend rate assumption was selected to reflect actual trend rate experience over the most recent years and that expected over the next few years.

Medical Claims Cost Assumptions: The final important assumption is the medical claims cost assumption. The 1993 claims cost assumption was adopted by GTE based upon the recommendation of its actuary. This assumption was based on an evaluation of actual GTE experience giving the greatest weight to the most recent years' experience.

Certain factors specific to an individual business unit such as demographics and benefit levels are included. Demographic factors include employee and retiree headcount for each unit. Benefit levels include a review of each bargaining unit contract in the case of nonmanagement employees and GTE benefit policies for management employees.

Since GTE SFAS-106 results are specific to each telephone business unit, and only these results were used to calculate the respective requests for exogenous

treatment, no results of any non-telephone operations entities were included in this response.

- (5) **Responding to paragraph 21, the required VEBA trust documents are supplied. GTE as noted above maintains that funding SFAS 106 benefits should be at management's discretion.**

Paragraph 21 of the *Order* requests information from companies that have VEBA trusts or other funding mechanisms for SFAS 106 expenses that were established prior to the adoption of SFAS 106.

- (1) Describe any VEBA trust or other funding mechanisms for the expenses that were established prior to the adoption of SFAS 106.

Copies of Trust Agreements between GTE Service Corporation and State Street Bank and Trust Company are provided (See Attachments III and IV). These are trusts filed under Section 501(c)(9) of the Internal Revenue Code of 1986 (the "Code"). GTE maintains two separate trusts. One Trust is specifically for the benefit of employees who are subject to collective bargaining. The second Trust is for noncollective bargaining groups and management employees. The purpose of a Trust is to receive amounts funded by GTE, pay benefits as described by each business unit's Plan, pay the expenses of the Trust, and properly invest any excess funds. The principal benefit of this Trust arrangement is that it will be exempt from federal income tax under Section 501(a) of the Code.

- (2) Provide the amounts placed in these funds for each year since they were implemented, including the 1990-91 tariff year for LECs.

See Attachment V.

- (3) Describe and provide the amounts in the trust that were for ongoing OPEBs and those that were for TBO.

Funding amounts provided to the Trust and amounts held by the Trust are not segregated by TBO and Service Cost. Neither SFAS-106 nor the *SFAS-106 Order*

required that a separate accounting for TBO and Service Cost be maintained. Since liabilities established by SFAS-106 are not separately accounted for and funding is not calculated on a dollar for dollar relationship with the SFAS-106 accrual, this information is not available.

- (4) Describe the assumptions made when the funds were set up, including, but not limited to, the time value of money, expected long-term rate of return on plan assets, future compensation levels, and retirement age factors affecting the amount and timing of future benefits.

Discussion of each of the factors listed above is pertinent in a discussion of the calculation of the SFAS-106 impact. As such, please refer to GTE's response to paragraph 20.

Funding levels are driven by a different set of criteria than mentioned in the question. First, funding levels must be of a substantial nature in order to provide enough assets to pay claims of the Trust. Second, and of most importance, in order to receive favorable tax treatment under Code, funding levels must not exceed certain levels established by Code. Finally, it is important to understand that funding is not necessarily in the best interests of the ratepayer. The rate base treatment prescribed in *RAO Letter 20* calls for the interstate portion of unfunded accrued postretirement benefits recorded in Account 4310 to be deducted from the rate base and the interstate portion of any prepaid postretirement benefits recorded in Account 1410 to be added to the rate base. This rate base treatment actually results in an increase in sharing, if sharing is present. Also the return earned on funds reinvested in the company is typically greater than that placed in other investment vehicles.

Since *RAO Letter 20* accounting procedures will be implemented upon adoption of SFAS-106 to track the liability and this procedure is favorable to the ratepayer, GTE recommends that a request for full funding be rejected.

- (5) State the purpose of the VEBA funds and describe what SFAS-106 benefit packages are covered by each VEBA fund.

As described by the Trust document, the purpose of VEBA funds is to pay the benefits and other liabilities of the Plan. The benefit packages were described in the answer to paragraph 18 *supra*.

- (6) Describe the restrictions, if any, that prevent these VEBA funds from being used for other than SFAS-106 benefits.

As described in Section 14 of the Trust, it shall be impossible for any part of the Trust fund to inure to the benefit of any private shareholder or individual other than through the payment of benefits under the Plan and the payment of reasonable administrative expenses of the Plan. (*See* Attachment III at 15 and Attachment IV at 17.) *See* Section 14 of the Trust for a discussion of any assets remaining on Plan termination.

- (6) **Responding to paragraph 22, vesting inures to the benefit recipient under SFAS-106 at the time of retirement. Thus, as currently calculated, the exogenous claim is only for vested benefits.**

Paragraph 22 directs the LECs to provide documentation showing when the employees' interests in OPEBs vest. Also, companies must explain how they determine when an employee's interest vests in OPEBs.

SFAS-106 is commonly referred to as "PBOP" which is a derivation of Postretirement Benefits Other Than Pensions. The important factor to consider is that these benefits are available only to employees reaching a designated definition of retirement. *See* the Plan (Attachment II at 1) where eligibility for retirement is

described. Retirement ages and an estimate of the number of employees is a factor built into the valuation conducted by the actuary when estimating GTE SFAS-106 impacts. Thus vesting is already a factor built into the SFAS-106 impacts used as a basis for the exogenous claim.

(7) Responding to paragraph 23, the deferred tax impact applicable to OPEBs is noted in the GTE calculation of the exogenous adjustment.

Paragraph 23 directs LECs to describe on a year-by-year basis any exogenous adjustment made to reflect any deferred tax benefit associated with their OPEB accrual amounts.

The impact of the accrual of SFAS-106 expenses will be recorded for financial reporting purposes only. For tax purposes only PAYGO amounts will be deductible in calculating the companies current year tax liability. Thus the effect of this temporary timing difference on taxes will be the creation of deferred tax assets. The estimate of the effect of creating these deferred tax assets was included in the *1993 GTE Filings*.

The implication of deferred tax benefits being temporary and subject to reversal over time brings up the potential need to revisit exogenous adjustments over time. In the *1993 GTE Filings* (at 23), GTE proposes to eliminate the Commission's concern regarding changes in valuation assumptions (and the resulting deferred taxes). Under the proposal, any significant decrease in the TBO and associated costs, regardless of the cause, would be reflected in future annual price cap filings as an adjustment to the exogenous amount granted. This true-up would adequately address the Commission's concerns regarding changes in underlying assumptions and the related tax impact.

- (8) Responding to paragraph 24, GTE concurs with the concurrent USTA filing.**
- (9) Responding to paragraph 25, GTE concurs with the concurrent USTA filing.**

Paragraph 24 directs each company to include in its direct case "all studies upon which the company seeks to rely in its demonstration that these accounting changes should receive exogenous cost adjustment."

Paragraph 25 directs that each company relying on a macroeconomic model to "describe and document the model, including the method of estimation, parameter estimates, and summary statistics."

GTE refers to USTA's Direct Case, Attachment A, "*Perspectives On Analysis of Impact of SFAS 106 GNP-PI*," in this proceeding. This affidavit is provided by Andrew Abel, Ph.D. and Peter Neuwirth, who prepared the Godwins study filed in response to the *OPEB Investigation*. See also USTA's Direct Case, Attachments C, D, E, F, in this proceeding for further affirmation of the validity of the original study.¹⁵

- (10) Responding to paragraph 26, GTE provides the actuarial reports used to determine SFAS-106 amounts and the related actuarial assumptions.**

Paragraph 26 requests that LECs provide a complete copy of all actuarial reports and studies used to determine SFAS-106 amounts and descriptions and justifications of the actuarial assumptions. Parties are to comment on future events such as capping or elimination of benefits, or the possible advent of national health insurance.

¹⁵ GTE adopts by reference the Attachments listed above in addition to USTA's Direct Case, Attachments B, G, and H in this proceeding.

The actuarial study used to support GTE's exogenous adjustments is included as Attachment II. A discussion of assumptions is included in GTE's response to paragraph 20.

Future events such as capping or eliminating benefits or a change in governmental policies could affect future SFAS-106 costs. As pointed out in GTE Rebuttal Testimony,¹⁶ LECs have the incentive to control costs. Under price caps, GTE clearly has assumed the responsibility to manage the rising level of expenses without a guaranteed revenue offset from the Commission, as was previously available under rate of return regulation.

GTE has accepted this responsibility by exercising many available options within its control. This includes pursuing cost savings measures such as: adjusting retiree copayment levels; contracting with Health Maintenance Organizations ("HMOs"); Preferred Provider Organization ("PPOs"); and establishing a Patient Advocate System. This list, while not exhaustive, is indicative of GTE's efforts.

While the efforts listed above are important steps in adjusting benefits expense, LECs do not have the unilateral ability to reduce or eliminate such benefits. The efforts of GTE in adjusting benefits and benefit levels must be weighed against the requirement to obtain the highest quality employee at a reasonable price. Also, GTE is constrained by existing labor contracts in its attempts to reduce cost levels.

While GTE's diligence can help control costs, GTE cannot be held responsible for the increasing level of overall medical costs. Factors which significantly affect the

¹⁶ D. 92-101, Rebuttal of GTE dated July 31, 1992, at 22.

cost of benefit plans can only be included in SFAS-106 valuations as estimates by the actuary. Health care inflation is a primary factor that must be considered in any benefit price out. Since factors beyond GTE's control have significant impacts on the actual benefit cost, GTE, as suggested *supra*, would be willing to consider an annual true-up of the exogenous claim.

(11) Responding to paragraph 27, GTE maintains that its response to paragraph 26 provides the Commission with all information related to assumptions used to derive SFAS-106 amounts. GTE did not request exogenous treatment for the impact of SFAS-112. Therefore, GTE has not included details related to the SFAS-112 impact.

Paragraph 27 instructs LECs to submit all options provided by actuaries from which information was selected to derive SFAS-106 amounts including, but not limited to: the ranges of data on the age of the workforce; the ages at which employees will retire; mortality rates; the gross eligible charge table by age; and the length of service of retirees. For comparison purposes, carriers should also provide the actuarial assumptions and data used for SFAS-112 computations. Carriers should provide information on whether they took into account the possibility of future downsizing of the workplace. Carriers should provide information on what adjustments they have made to their SFAS-106 amounts for downsizing in the workforce that have occurred since the adoption of SFAS-106.

First, this question is difficult to answer, as it involves an interpretation of what issues are interwoven and combines issues that should have been separated. GTE's response will address the issues individually.

The availability of "options" for demographic information, such as described, suggests the ability of management to pick and chose the results of the valuation process. The demographics submitted with GTE's answer to paragraph 26 are those

used in the valuation and judged by its outside actuary to be either the most representative of the employee population or based on actual GTE history.

SFAS-112 involves benefits provided to former or inactive employees after employment but before retirement. These benefits, along with other less significant items, include salary continuation, severance, job training and continuation of health and life insurance. Given the insignificant amounts involved in SFAS-112, GTE has not sought to make an exogenous claim under price cap rules. GTE feels there is no basis in making a comparison between the two calculations, given the difference in benefit types and employees covered and in the level of detail in calculating liabilities between SFAS-112 and SFAS-106.

The exogenous claim could be adjusted for the impact of any future downsizing by the same method as if any other valuation estimate was found to be materially different from actual results. GTE in the *1993 GTE Filings* (at 18) proposed to eliminate the Commission's concern of overrecovery as summarized in the response to paragraph 23. To refresh the record, GTE has resubmitted its 1993 Annual Access Tariff Filings without adjustment. Since this is the first year of recognizing the SFAS-106 impact, downsizing would not be reflected.

(12) Responding to paragraph 28, most of this information is included in the USTA filing referred to in the responses to paragraphs 8 and 9. Other issues are discussed *infra*.

Paragraph 28 requests that GTE respond to the suggestion that part of the growth in GDP-PI occurs due to growth in medical costs. The Commission seeks information on what, if any, adjustment should be made to exogenous requests to avoid double-counting. Any adjustments already made to exogenous requests should be documented. Also, LECs are requested to comment and quantify the impact of wage

changes that will be reflected in GDP-PI that are expected to occur as a result of the introduction of SFAS-106.

The impact of wage adjustments and the impact of the increase in medical costs have both been addressed by GTE in the reduction to its exogenous claim as noted in Attachment VII, Lines 9 and 23. As will be described *infra*, GTE makes a combined 15.2 percent reduction to its exogenous claim representing 14.5 percent related to the expected national wage rate reduction and 0.7 percent due to SFAS-106 costs being reflected in the GNP-PI. This reduction is based on results of the original Godwins study and described in *1993 GTE Filings* (at 22).

In our original Direct Case, GTE noted its concurrence with the Godwins study and included the following statement taken from a letter written by Peter Neuwirth of Godwins to Frank McKennedy of USTA.

As is pointed out in the paragraph, a Price Cap LEC which seeks an exogenous adjustment equal to the entire increase in its costs due to SFAS 106 reduces the risk of "double counting" because the increases in all companies' costs due to SFAS 106 will to some degree already be reflected in the growth of the GNP-PI. In fact, the proportion of the average Price Cap LEC's cost increases due to SFAS 106 that is not reflected in the growth in GNP-PI is precisely what the Godwins study attempts to determine. As shown in item C on page 2 of the Godwins report, only 0.7% of the average Price Cap LEC's cost increase due to SFAS 106 will be reflected in the growth in the GNP-PI. The factors which cause far less than 100% of SFAS 106 costs to be reflected are described on pages 7 - 11 of the report, while the detailed derivation of the 0.7% is described in Section III, pages 12 - 31 of the report.

GTE supports the conclusions reached by Godwins and notes that the current analysis of the original study adds further support to the conservative nature of the study. In their macroeconomic analysis, Godwins found that the national wage rate would eventually be 0.93 percent lower than it would have been in the absence of SFAS-106. Godwins concluded that if "TELCO" was able to benefit from similar

reduction in its wage rate, such a reduction would recover an additional 14.5 percent of "TELCO's" direct SFAS-106 costs. GTE accepted this conclusion and will not seek exogenous recovery on 14.5 percent of its SFAS-106 incremental costs because of the expected national wage rate reduction.

(13) Responding to paragraph 29, the required data for GTE is furnished in Attachment VI.

Paragraph 29 asks LECs to provide information on their average total compensation per employee and the amount OPEBs represents of this total compensation. Similar information on the economy as a whole is requested.

In responding to paragraph 29, GTE provides the information requested for 1993.¹⁷ The impact of SFAS-106 on wage changes is reflected in the adjustment mentioned in the GTE's answer to paragraph 28. USTA's Direct Case in this proceeding, Attachment B (at 4) and Attachment C show that great efforts were taken to allow for the fact that all workers represented in the economy as a whole will not earn similar benefit levels as LEC employees. Any wage based factor created by the Commission should also allow for benefit level differences and the adjustment already included in LEC exogenous claims.

¹⁷ The information on the economy as a whole is presented in Southwestern Bell's Direct Case in the instant proceeding, Attachment 11, *U.S. Economy Compensation Per Employee*, at 2.

- (14) **Responding to paragraph 30, GTE maintains that by using conservative estimates in its exogenous claim, conducting a periodic review of actual results versus estimates, and a true-up of the exogenous claim for significant variances, the ratepayer will be made whole for any temporary over-accrual.**

Paragraph 30 points out that OPEBs generally represents non-cash expenses that may never be paid. LECs are asked to describe provisions they have made, if any, to return to ratepayers the over-accrual of the non-cash expenses if exogenous treatment is given for these amounts. LECs should describe any plans they have to return such monies to customers through voluntary PCI reductions or other means. LECs were requested to describe how these gains from such over-accruals are recognized on their books of account.

In responding to paragraph 30, GTE reiterates its position that SFAS-106 estimates are conservative, grounded in fact, and are a factor inherent in other currently accepted methods of accounting such as depreciation and pension.

GTE understands that there is the potential for estimates to vary from actual experience. In that event the *1993 GTE Filings* describe how GTE proposes to monitor potential variances and adjust for significant issues through a true-up process.

Given the conservative nature of the estimates used, there is always the potential for the exogenous request to understate the actual impact of SFAS-106 requiring an increase in future tariff filings. Such is the result of using estimates. This fact was addressed in *Southwestern Bell*. The Court questioned the Commission in its rejection of exogenous treatment because of the use of "highly speculative" estimates.

The Court found that this "should lead to complete rejection only if there was no way of obtaining even conservative estimates...."¹⁸

Through the use of conservative estimates, a regular review of the exogenous claim, and a change to the claim for significant issues GTE maintains that the ratepayer will be made whole.

(15) Responding to paragraph 31, GTE maintains that as contracts are renegotiated and benefit levels change, assumptions used to calculate SFAS-106 impacts are similarly adjusted on an annual basis. These contract changes are efficiently summarized in the annual valuation and submitting contracts to the Commission is an inefficient use of resources.

Paragraph 31 points out that the accrual calculations used by companies to develop their claims for exogenous treatment for SFAS-106 amounts are, in part, based on the OPEBs provided pursuant to contracts between the companies and their employees. Since contracts will be renegotiated over time, OPEBs benefit levels could change. The Commission notes that these future changes could affect future accruals and could be useful in comparing prior calculated accruals to the revised OPEBs accruals to aid in determining whether former calculations were reasonable. In particular the Commission is interested in determining whether the underlying actuarial assumptions have changed. Thus the Commission requests LECs to document any and all changes made in OPEBs offerings to employees. Any new contracts with employees and their representative unions shall be submitted as they are negotiated.

GTE has supplied the Summary of Plan Provisions for Retiree Welfare Valuations dated January 1, 1993. (See Attachment II.) These are the provisions that

¹⁸ *Southwestern Bell*, 28 F.3d at 172.

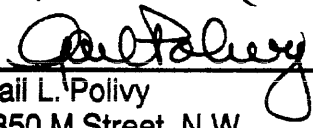
would have been in place for valuation results included in GTE's claim for exogenous treatment. This document is produced every year by GTE's outside actuary based on current management benefits and the most current contracts between GTE and its unions. This summary provides, in a very efficient manner, all factors necessary in valuing GTE's SFAS-106 liability. This document is presented in-lieu of a copy of each bargaining unit contract.

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

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August 14, 1995

Their Attorneys

ATTACHMENT I

EMPLOYEE BENEFIT PLANS

6. Employee Benefit Plans

The Company participates in the Parent Company's trustee pension plan (the Plan), which covers substantially all employees. The benefits are based on an employee's years of service and average earnings for the five highest consecutive calendar years preceding retirement. The Company's policy is to fund pension cost in accordance with applicable regulations. Total pension costs for 1992 and 1991 were \$2.2 million and \$3.1 million, respectively.

The net assets available for benefits are maintained for the total Plan, but not by subsidiary. The Plan's net assets available for benefits exceeded projected benefit obligations as computed under SFAS No. 87 "Employers' Accounting for Pensions" as of the last valuation made by an actuary.

The Company participates in a plan administered by the Parent Company which provides certain health care and life insurance benefits for substantially all retired employees. The costs of providing these benefits were approximately \$2.0 million and \$1.6 million for 1992 and 1991, respectively. Life insurance benefits for retirees are provided through an insurance company whose premiums are based on the claims experience of the participants. The Company recognizes the cost of providing these benefits in the year paid by expensing the annual life insurance premiums.

Effective January 1, 1993, the Company will adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new standard requires that the expected costs of these benefits be charged to expense during the years that employees render service. Commencing January 1, 1993, the unrecorded accumulated postretirement benefit obligation of \$61.3 million will be amortized over twenty years.

Annual postretirement benefit cost computed in accordance with SFAS No. 106 is estimated to be \$10.3 million for 1993. However, the Company has not yet determined the effect that adoption of SFAS No. 106 will have on its results of operations due to uncertainty as to the Company's ability to recover the increased costs in its rates and tariffs, which requires the approval of regulators.

6. Employee Benefit Plans

The Company participates in the Parent Company's trustee pension plan (the Plan), which covers substantially all employees. The benefits are based on an employee's years of service and average earnings for the five highest consecutive calendar years preceding retirement. The Company's policy is to fund pension cost in accordance with applicable regulations. Total pension costs for 1992 and 1991 were \$53,000 and \$70,000, respectively.

The net assets available for benefits are maintained for the total Plan, but not by subsidiary. The Plan's net assets available for benefits exceeded projected benefit obligations as computed under SFAS No. 87 "Employers' Accounting for Pensions" as of the last valuation made by an actuary.

The Company participates in a plan administered by the Parent Company which provides certain health care and life insurance benefits for substantially all retired employees. The costs of providing these benefits were approximately \$67,000 and \$52,000 for 1992 and 1991, respectively. Life insurance benefits for retirees are provided through an insurance company whose premiums are based on the claims experience of the participants. The Company recognizes the cost of providing these benefits in the year paid by expensing the annual life insurance premiums.

Effective January 1, 1993, the Company will adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new standard requires that the expected costs of these benefits be charged to expense during the years that employees render service. Commencing January 1, 1993, the unrecorded accumulated postretirement benefit obligation of \$2.2 million will be amortized over twenty years.

Annual postretirement benefit cost computed in accordance with SFAS No. 106 is estimated to be \$0.4 million for 1993. On January 29, 1992, the SCPSC approved the full adoption of SFAS No. 106 for accounting and ratemaking purposes effective beginning with the 1991 monitoring period.

7. **Employee Benefit Plans (Continued)** The projected benefit obligations at December 31, 1992 and 1991 include accumulated benefit obligations of \$374.4 million and \$348.2 million and vested benefit obligations of \$315.2 million and \$289.0 million, respectively.

Postretirement Benefits Other Than Pensions

The Company generally provides health care and life insurance benefits to retirees. Benefits for eligible retirees are expensed as paid and amounted to \$8.0 million, \$7.5 million and \$6.9 million for 1992-1990, respectively.

Effective January 1, 1993, the Company will adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard requires that the expected costs of these benefits be charged to expense during the years that employees render service. Commencing January 1, 1993, the

estimated unrecorded accumulated postretirement benefit obligation of \$331.5 million will be amortized over twenty years.

Annual postretirement benefit cost computed in accordance with SFAS No. 106 is estimated to be \$52.1 million for 1993. The FPSC's January 21, 1993 rate case order approved SFAS No. 106 costs for accounting and ratemaking purposes. However, the FPSC deferred \$10 million of the incremental intrastate costs, which will be amortized over four years commencing in 1994.

Savings Plans

The Company sponsors savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Amounts charged to income were \$6.0 million, \$5.7 million and \$2.3 million in 1992-1990, respectively.

8. *Employee Benefit Plans*

RETIREMENT PLANS

The Company has trustee, noncontributory, defined benefit pension plans covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. The Company's funding policy, subject to the minimum funding requirements

of U.S. employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The net pension credits for 1993-1991 include the following components:

	1993	1992	1991
	(Thousands of Dollars)		
Service cost-benefits earned during the period	\$ 20,939	\$ 20,350	\$ 20,781
Interest cost on projected benefit obligations	44,428	42,338	39,261
Actual return on plan assets	(141,365)	(49,229)	(156,517)
Other - net	56,390	(29,843)	88,822
Net pension credit	\$ (19,608)	\$ (16,384)	\$ (7,653)

The expected long-term rate of return on plan assets was 8.25% for 1993 and 1992 and 8.0% in 1991.

The funded status of the plans at December 31, 1993 and 1992 was as follows:

	1993	1992
	(Thousands of Dollars)	
Plan assets at fair value	\$ 904,013	\$ 887,966
Projected benefit obligation	536,199	554,270
Excess of assets over projected obligation	367,814	333,696
Unrecognized net transition asset	(67,496)	(84,249)
Unrecognized net gain	(259,894)	(228,944)
Prepaid pension cost	\$ 40,424	\$ 20,503

The projected benefit obligations at December 31, 1993 and 1992 include accumulated benefit obligations of \$401.3 million and \$374.4 million and vested benefit obligations of \$343.5 million and \$315.2 million, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1993 and 1992 were as follows:

	1993	1992
Discount rate	7.5 %	8.0%
Rate of compensation increase	5.25%	6.0%

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

As described in Note 1, effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Substantially all of the Company's employees are covered under postretirement health care and life insurance benefit plans. The health care benefits paid under the plans are generally based on comprehensive hospital, medical and surgical benefit provisions, while the life insurance benefits are currently based on annual earnings at the time of

**8. Employee
Benefit Plans
(Continued)**

retirement. The Company funds amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1993 includes the following components (in thousands of dollars):

	1993
Service cost-benefits earned during the period	\$ 8,581
Interest cost on accumulated postretirement benefit obligation	25,017
Amortization of transition obligation	15,432
Postretirement benefit cost	\$ 49,030

During 1992 and 1991, the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis was \$8.0 million and \$7.5 million, respectively.

The following table sets forth the plans' funded status and the accrued obligation as of December 31, 1993 (in thousands of dollars):

	1993
Accumulated postretirement benefit obligation attributable to:	
Retirees	\$ 173,478
Fully eligible active plan participants	2,851
Other active plan participants	156,848
Total accumulated postretirement benefit obligation	333,177
Fair value of plan assets	194
Excess of accumulated obligation over plan assets	332,983
Unrecognized transition obligation	(256,701)
Unrecognized net loss	(33,893)
Accrued postretirement benefit obligation	\$ 42,389

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% at December 31, 1993. The expected long-term rate of return on plan assets was 8.25% for 1993. The assumed health care cost trend rate in 1993 was 13% for pre-65 participants and 9.5% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rate for each future year would have increased 1993 costs by \$5.6 million and the accumulated postretirement benefit obligation at December 31, 1993 by \$45.4 million.

During 1993, the Company made certain changes to its postretirement health care and life insurance benefits for non-union employees that are effective January 1, 1995. These changes include, among others, newly established limits to the Company's annual contribution to postretirement medical costs and a revised sharing schedule based on a retiree's years of service. The net effect of these changes reduced the accumulated benefit obligation at December 31, 1993 by \$46.0 million.

SAVINGS PLANS

The Company sponsors savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, the Company provides matching contributions in GTE common stock based on qualified employee contributions. Matching contributions charged to income were \$5.4 million, \$6.0 million and \$5.7 million in the years 1993-1991, respectively.

Employee Benefit Plans (Continued) The projected benefit obligation at December 31, 1992 and 1991 includes accumulated benefit obligations of \$255.6 million and \$233.8 million and vested benefit obligations of \$219.2 million and \$197.4 million, respectively.

Postretirement Benefits Other Than Pensions

The Company generally provides health care and life insurance benefits to retirees. Benefits for eligible retirees are expensed as paid and amounted to \$4.4 million, \$4.4 million and \$3.9 million for 1992-1990, respectively.

Effective January 1, 1993, the Company will adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard requires that the expected costs of these benefits be charged to expense during the years that employees render service. Commencing January 1, 1993, the estimated unrecorded accumulated postretirement benefit obligation of \$248.2 million will be amortized over twenty years.

Annual postretirement benefit cost computed in accordance with SFAS No. 106 is estimated to be \$38.0 million for 1993. The Company has not yet determined the effect that adoption of SFAS No. 106 will have on its results of operations due to uncertainty as to the Company's ability to recover the increased costs in its rates and tariffs, which require the approval of regulators. However, on September 13, 1991, the South Carolina Public Service Commission (SCPSC) approved the adoption of SFAS No. 106 for accounting and ratemaking purposes. In addition, the SCPSC allowed recovery of a portion of the Company's transitional benefit obligation (TBO) during 1991 and 1992.

Savings Plans

The Company sponsors savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Amounts charged to income were \$3.8 million, \$2.6 million and \$1.8 million in 1992-1990, respectively.

8. Commitments and Contingencies The Company's construction budget for 1993 is estimated to be approximately \$210 million, for which the Company had substantial purchase commitments as of December 31, 1992.

The Company has noncancelable lease contracts covering certain buildings, office space and equipment. The lease contracts contain varying renewal options for terms up to 33 years.

Minimum rental commitments for noncancelable leases for periods subsequent to December 31, 1992 are as follows (in thousands of dollars):

1993	\$ 2,171
1994	1,192
1995	673
1996	323
1997	304
Thereafter	618
<hr/>	
Total minimum rental commitments	\$ 5,281

The total amount of rents charged to expense was \$13.2 million, \$16.0 million and \$17.0 million for 1992-1990, respectively.

9. Employee Benefit Plans

RETIREMENT PLANS

The Company has trustee, noncontributory, defined benefit pension plans covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. The Company's funding policy, subject to the minimum funding requirements

of U.S. employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligations of the plans. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The net pension credits for 1993-1991 include the following components:

	1993	1992	1991
	(Thousands of Dollars)		
Service cost-benefits earned during the period	\$ 17,437	\$ 13,451	\$ 14,154
Interest cost on projected benefit obligations	35,616	28,509	26,587
Actual return on plan assets	(96,664)	(32,904)	(106,268)
Other - net	31,472	(19,747)	60,123
Net pension credit	\$ (12,139)	\$ (10,691)	\$ (5,404)

The expected long-term rate of return on plan assets was 8.25% for 1993 and 1992 and 8.0% in 1991.

The funded status of the plans at December 31, 1993 and 1992 was as follows:

	1993	1992
	(Thousands of Dollars)	
Plan assets at fair value	\$ 626,978	\$ 598,554
Projected benefit obligation	373,787	372,658
Excess of assets over projected obligation	253,191	225,896
Unrecognized net transition asset	(42,284)	(57,286)
Unrecognized net gain	(167,313)	(149,287)
Prepaid pension cost	\$ 43,594	\$ 19,323

The projected benefit obligations at December 31, 1993 and 1992 include accumulated benefit obligations of \$281.7 million and \$255.6 million and vested benefit obligations of \$249.6 million and \$219.2 million, respectively.

Assumptions used to develop the projected benefit obligations at December 31, 1993 and 1992 were as follows:

	1993	1992
Discount rate	7.5 %	8.0%
Rate of compensation increase	5.25%	6.0%

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

As described in Note 1, effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Substantially all of the Company's employees are covered under postretirement health care and life insurance benefit plans. The health care benefits paid under the plans are generally based on comprehensive hospital, medical and surgical benefit provisions, while the life insurance benefits are currently based on annual earnings at the time of retirement. The Company funds

9. **Employee
Benefit Plans**
(Continued)

amounts for postretirement benefits as deemed appropriate from time to time.

The postretirement benefit cost for 1993 includes the following components (in thousands of dollars):

	1993
Service cost-benefits earned during the period	\$ 4,537
Interest cost on accumulated postretirement benefit obligation	13,939
Actual return on plan assets	(538)
Amortization of transition obligation	8,588
Postretirement benefit cost	\$ 26,526

In each of the years 1992 and 1991, the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis was \$4.4 million.

The following table sets forth the plans' funded status and the accrued obligation as of December 31, 1993 (in thousands of dollars):

	1993
Accumulated postretirement benefit obligation attributable to:	
Retirees	\$ 112,498
Fully eligible active plan participants	12,510
Other active plan participants	56,141
Total accumulated postretirement benefit obligation	181,149
Fair value of plan assets	6,178
Excess of accumulated obligation over plan assets	174,971
Unrecognized transition obligation	(132,857)
Unrecognized net loss	(23,289)
Accrued postretirement benefit obligation	\$ 18,825

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% at December 31, 1993. The expected long-term rate of return on plan assets was 8.25% for 1993. The assumed health care cost trend rate in 1993 was 13% for pre-65 participants and 9.5% for post-65 retirees, each rate declining on a graduated basis to an ultimate rate in the year 2004 of 6%. A one percentage point increase in the assumed health care cost trend rate for each future year would have increased 1993 costs by \$3.1 million and the accumulated postretirement benefit obligation at December 31, 1993 by \$22.1 million.

During 1993, the Company made certain changes to its postretirement health care and life insurance benefits for non-union employees that are effective January 1, 1995. These changes include, among others, newly established limits to the Company's annual contribution to postretirement medical costs and a revised sharing schedule based on a retiree's years of service. The net effect of these changes reduced the accumulated benefit obligation at December 31, 1993 by \$38.9 million.

SAVINGS PLANS

The Company sponsors savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, the Company provides matching contributions in GTE common stock based on qualified employee contributions. Matching contributions charged to income were \$2.9 million, \$3.8 million and \$2.6 million in the years 1993-1991, respectively.

ATTACHMENT II

**SUMMARY OF PLAN PROVISIONS FOR JANUARY 1, 1993
RETIREE WELFARE VALUATION**

GTE CORPORATION

**Summary of Plan Provisions for
January 1, 1993 Retiree Welfare Valuation**

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GTE CORPORATION

Summary of Plan Provisions for January 1, 1993 Retiree Welfare Valuation -- GTE Telops

MEDICAL PLAN

Eligibility Retirement with 15 years and sum of age plus service total at least 76; or age 65 with 5 years of service.

Exception: For Hawaii, completion of 15 years of service (any age) or age 60.

Dependent Eligibility Eligibility continues beyond retiree's death.

Pre-65 benefits Varies by retirement date and plan.

Post-65 benefits Varies by retirement date and plan; coordinated with Medicare on a "Standard COB" basis for pre-1990 retirees, and on a "carve out" basis for post-1989 retirees.

Postretirement contributions Future Non-union Retirees: Service-related contributions as a percentage of gross costs as follows (except for GTE Alaska and GTE Supply):

<u>Years of service at retirement</u>	<u>Retiree Contribution Percentage</u>	
	<u>Retiree</u>	<u>Spouse</u>
< 10	100%	100%
10 - 14	80	80
15 - 19	60	60
20 - 24	40	40
25 - 29	20	20
30 +	10	10

Alaska retirees:

Pre-65 contribution: 100% of gross costs for retiree/spouse.

Post-65 contribution: per above service-related schedule.

GTE Supply non-union:

Pre-65 contribution: 50% of gross costs for retiree/spouse.

Post-65 contribution: \$120/person.

Current Non-union Retirees: contribution requirements vary depending upon legal entity, date of retirement and age at retirement as summarized in Exhibit A.

Future Union Retirees: contributions vary by state/legal entity as summarized in Exhibit B.

Current Union Retirees: any differences in contributions required of current retirees vs. future retirees are summarized in Exhibit B.

GTE Corporation
Summary of Plan Provisions for
January 1, 1993 Retiree Welfare Valuation -- GTE Telops

**REIMBURSEMENT OF
MEDICARE PART B
PREMIUMS**

Eligibility	Hawaii retirees only, who "retire" after completing 15 years of service or attainment of age 60.
Benefit	Reimbursement of Medicare Part B premiums for both retiree and spouse. For 1993, Medicare Part B premium is \$439 per person age 65 and over.

**POSTRETIREMENT
LIFE INSURANCE**

Eligibility	Same as for medical plan.
Benefit	Life insurance for GTE Telops retirees is a percentage of average basic annual salary for 5 years prior to retirement:

	<u>Hawaii Union</u>	<u>All Others</u>
First 5 years after retirement	50%	75%
Year 6	45	65
Year 7	40	55
Year 8	35	45
Year 9	30	35
Year 10 and later	30	30

For retirements after age 65, the reduction schedule assumes age 65 retirement.

GTE CORPORATION -- NON-UNION EMPLOYEES

**Summary of Retiree Medical Plan Contribution Requirements
as of January 1, 1993**

<u>Legal Entity</u>	<u>State/Study Area</u>	<u>Subgroup</u>	<u>Pre-65 Contributions</u>		<u>Post-65 Contributions</u>	
			<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>
GTE Alaska	Alaska	Pre-1990 retirees Post-1989 retirees	\$918 100%	\$1,297 100%	\$120* Service-Related	\$120*
GTE California GTE Florida GTE Hawaii GTE Midwest GTE South GTE Southwest GTEDS Telecom Marketing	CA, GTEL FL, GTECC HI IA, MN, MO, NE AL, GA, KY, NC, SC, TN, VA, WV AR, NM, OK, TX GTEDS Telecom Marketing	Pre-1990 retirees Post-1989 retirees	\$0 Service-Related	\$0 Service-Related	\$120* Service-Related	\$120*
GTE North	GTE IL, IN, MI, OH, PA, WI Contel IL, IN, PA (excluding Quaker State)	Pre-1990 retirees Post-1989 retirees All retirees	\$0 Service-Related \$0	\$0 Service-Related \$0	\$120* Service-Related \$0	\$120*
GTE Northwest	ID, MT, OR, WA, West Coast-CA	Pre-4/1/90 retirees: Under 62 at retirement Age 62+ at retirement 4/1/90-12/31/92 retirees: Under 62 at retirement Age 62+ at retirement 1/1/93 and later retirees	100% 10% 100% 10% Service-Related	100% 10% 100% 10% Service-Related	\$120* \$120* Service-Related Service-Related Service-Related	\$120*
GTE Supply	GTE Supply	Pre-1990 retirees Post-1989 retirees	\$0 50%	\$0 50%	\$120* \$120*	\$120*
General Office Vantage	Execs and Non-execs	Pre-1990 retirees Post-1989 retirees	\$390* Service-Related	\$918* Service-Related	\$120* Service-Related	\$120*

* Non-indexed

GTE CORPORATION -- UNION EMPLOYEES

**Summary of Retiree Medical Plan Contribution Requirements
as of January 1, 1993**

<u>Legal Entity</u>	<u>State/Study Area</u>	<u>Subgroup</u>	<u>Pre-85 Contributions</u>		<u>Post-85 Contributions</u>	
			<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>
GTE California	CA, GTEL	Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	100%	\$120*	\$120*
GTE Florida	FL, GTECC	Pre-1990 retirees	\$0	\$0	\$120*	\$120*
GTE Southwest	AR, NM, OK, TX	Post-1989 retirees	Service-related		Service-related	
GTE Hawaii	HI	AN	\$0	\$0	\$0	\$0
GTE Midwest	IA, MN, MO, NE	Pre-1993 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	100%	\$120*	\$120*
		Post-1992 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	0%	\$120*	\$120*
GTE North	GTE Illinois	Pre-11/17/91 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	100%	\$120*	\$120*
		Post-11/16/91 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	0%	\$120*	\$120*
GTE North	GTE Indiana	CWA retirees:				
		Under 62 at retirement	100%	100%	\$120*	\$120*
		Age 62+ at retirement	0%	0%	\$120*	\$120*
		IBEW retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	0%	\$120*	\$120*
GTE North	GTE Michigan	Pre-8/11/91 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	100%	\$120*	\$120*
		Post-8/10/91 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	0%	\$120*	\$120*
GTE North	GTE Ohio	AN	25%	28%	\$120*	\$120*
GTE North	GTE Pennsylvania	Under 62 at retirement	98%	92%	\$120*	\$120*
		Age 62+ at retirement	0%	0%	\$120*	\$120*

* Non-indexed

GTE Telops -- Union Employees
Summary of Retiree Medical Plan
Contribution Requirements as of January 1, 1993

EXHIBIT B
(continued)

<u>Legal Entity</u>	<u>State/Study Area</u>	<u>Subgroup</u>	<u>Pre-65 Contributions</u>		<u>Post-65 Contributions</u>	
			<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>
GTE North	GTE Wisconsin	Pre-1994 retirees:				
		Under 62 at retirement	100%	100%	\$120*	\$120*
		Age 62+ at retirement	0%	0%	\$120*	\$120*
		Post-1993 retirees:				
		Under 60 at retirement	100%	100%	\$120*	\$120*
		Age 60+ at retirement	0%	0%	\$120*	\$120*
GTE North	Contel IL, IN, PA (excluding Quaker State)	All retirees	\$0	\$0	\$0	\$0
GTE Northwest	ID, MT, OR, WA, West Coast-CA	Pre-4/1/90 retirees:				
		Under 62 at retirement	100%	100%	\$120*	\$120*
		Age 62+ at retirement	10%	10%	\$120*	\$120*
		4/1/90 to 12/31/93 retirees:				
		Under 62 at retirement	100%	100%	Service-Related	
		Age 62+ at retirement	10%	10%	Service-Related	
		1/1/94 and later retirees:				
		Under 60 at retirement	100%	100%	Service-Related	
		Age 60+ at retirement	5%	5%	Service-Related	
GTE South	Kentucky	Pre-1/1/91 CWA retirees:	\$191*	\$393*	\$120*	\$120*
		All others:	20.3%	24.8%	\$120*	\$120*
GTE South	AL, GA, NC, SC, TN, VA, WV	All retirees	32.1%	35.4%	\$120*	\$120*
GTE Supply	GTE Supply	Pre-1993 retirees	50%	50%	100%	100%
		Post-1992 retirees	50%	50%	75%	75%

* Non-indexed

GTE CORPORATION

Summary of Plan Provisions for January 1, 1993 Retiree Welfare Valuation--Contel Telops

MEDICAL PLAN

Eligibility

Non-union: Retirement with 15 years and sum of age plus service total at least 76; or age 55 with 10 years of service; or age 65 with 5 years of service.

Union: Same as non-union.

Dependent Eligibility

Eligibility continues beyond retiree's death.

Pre-65 benefits

For pre-1989 retirees and "grandfathered" active employees who at 1/1/89 had completed 25 years of service or were age 55 with 15 or more years of service: reasonable and customary comprehensive plan ("old plan").

For post-3/1/93 union retirees of Contel New York and Vermont: Choices Option #1 comprehensive plan.

For other retirees: comprehensive plan with frozen 1989 reasonable and customary schedule and \$50,000 annual benefit maximum per person ("new plan"). Lifetime maximum of \$250,000. Coinsurance percentage is based on years of service at retirement:

Under 15 years of service	64% coinsurance
15-24 years of service	72% coinsurance
25 or more years of service	80% coinsurance

Post-65 benefits

Same as pre-65, coordinated with Medicare on a "Standard COB" basis.

Exception: For post-3/1/93 union retirees of Contel New York and Vermont, coordinated with Medicare on a "carveout" basis.

Postretirement contributions

None, except for post-3/1/93 union retirees of Contel New York and Vermont for whom contributions are as follows:

- Under 60 at retirement: GTE Telops service-related contribution schedule for both pre-65 and post-65 coverage
- Age 60 + at retirement: No contributions for pre-65 coverage; \$120 per year per person for post-65 coverage.

GTE Corporation
Summary of Plan Provisions for
January 1, 1993 Retiree Valuation--Contel Telops

**POSTRETIREMENT
LIFE INSURANCE**

Eligibility

Same as for medical plan.

Benefits

Pre-1989 retirees and grandfathered active employees:
100% of base pay rate at retirement (or, if greater, 50% of
active life insurance plan coverage)

Post-3/1/93 union retirees of Contel New York and Vermont:
same as for GTE Telops.

Other retirees: coverage based on years of service at
retirement:

Under 15 years of service	50% of final base pay
15 - 24 years of service	75% of final base pay
25 or more years of service	100% of final base pay

GTE CORPORATION

**Summary of Actuarial Assumptions and Methods for
January 1, 1993 Retiree Welfare Valuation**

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GTE CORPORATION

Actuarial Methods and Assumptions for January 1, 1993 Retiree Welfare Valuation

METHODS

**Service cost and accumulated
postretirement benefit
obligation**

Projected unit credit, allocated from date of hire to full
eligibility date

Full eligibility date

Varies depending on plan provisions. Example:

- For locations with retiree medical cost-sharing unrelated to retirement age or years of service, full eligibility age is the earliest retirement eligibility date.
- For the service-related retiree medical contribution schedule, the full eligibility age is related to years of service at retirement date.

For example:

- For an employee who is assumed to retire with 30 or more years of service, full eligibility age is the employee's age when he completes 30 years of service.
- For an employee who is assumed to retire with 25-29 years of service, full eligibility age is the employee's age when he completes 25 years of service.
- For "pay-related" retiree life insurance plans, full eligibility age is the assumed retirement date.
- For locations with company-provided coverage available only if retirement is on or after a certain age (age 60 or 62), full eligibility age is age 60 or 62.

**Market-related value of assets
(where applicable)**

Fair value

**Development of claim cost
assumptions**

Per capita claim cost assumptions are based upon an analysis of actual per capita claim costs for 1990, 1991 and 6 months of 1992, with projection to 1993. Additional details are in Exhibit A.

GTE Corporation
Actuarial Methods and Assumptions for
January 1, 1993 Retiree Welfare Valuation

METHODS (continued)

FAS #106 adoption date

January 1, 1992 for GTE consolidated accounting purposes and for most non-Telops local accounting; January 1, 1993 for Telops entities (and for Directories, GTE Labs and Service Corp.) for local accounting.

Amortization of transition obligation

The consolidated accounting results by legal entity immediately recognized the transition obligation in 1992. The results to be used for local basis accounting (where different than consolidated) amortize the transition obligation over 20 years.

ADJUSTMENTS

AG/CSC: The results shown include an addition \$16 million of APBO to reflect GTE's estimated portion (50% for 1993) of AG's obligation for post-1993 retirees and certain 1992 ERIP retirements.

ECONOMIC ASSUMPTIONS

General inflation

4.0%

Discount rate

8.0%

Return on plan assets (where applicable)

8.25%

Salary increase rate (for pay-related life insurance)

6.0%

GTE Corporation
Actuarial Methods and Assumptions for
January 1, 1993 Retiree Welfare Valuation

MEDICAL PLAN ASSUMPTIONS

Age-related per capita claim costs are provided in Exhibit A. The claim costs vary by company/unit as appropriate based upon historical results. Administrative expenses equal to 4% of assumed claims are included in the starting per capita costs.

Medical trend assumptions

<u>Year</u>	<u>Pre-65</u>		<u>Post-65</u>
	<u>All GTE and "Old" Contel Plans</u>	<u>"New" Contel Plans</u>	
1993	13.0%	11.2%	9.5%
1994	12.0	10.4	9.0
1995	11.0	9.6	8.5
1996	10.0	8.8	8.0
1997	9.2	8.1	7.6
1998	8.5	7.5	7.2
1999	7.9	7.0	6.9
2000	7.4	6.6	6.6
2001	7.0	6.3	6.4
2002	6.6	6.0	6.2
2003	6.3	5.7	6.1
2004 and later	6.0	5.5	6.0

The above trend assumptions for post-65 costs for the Medicare Supplement plan reflect the impact of Medicare physician payment reforms, which limit "balance billing" by physicians not accepting Medicare assignment. A nonparticipating physician may not bill a Medicare patient more than 109.25% of the Medicare "allowable charge."

The trend assumptions shown above are applied to net incurred claims cost. The rates to be shown for corporate footnote disclosure should be those applicable to gross eligible charges. For disclosure purposes, the "average" health care cost trend rates assumed might be described as averaging approximately 11% for 1993, grading to 6% for years 2004 and later.

GTE Corporation
 Actuarial Methods and Assumptions for
 January 1, 1993 Retiree Welfare Valuation

MEDICAL PLAN ASSUMPTIONS (continued)

**Increase in retiree/
 spouse contributions**

- For plans with a post-65 contribution of \$120, no future increases in the contribution are assumed.
- For certain groups for which retiree contributions are established as fixed dollar amounts, as indicated in the summaries of plan provisions, no future increases in the contributions are assumed.
- For all others, contributions are expected to increase at the medical trend rate above.

**Increase in administrative
 expenses**

Administrative expenses are included in the starting per capita claim cost, and are assumed to increase at the medical trend rate.

DEMOGRAPHIC ASSUMPTIONS

Mortality

1983 Group Annuity Mortality Table

Sample life expectancies:

Age 60:

Male	19.9
Female	25.7

Age 65:

Male	16.0
Female	21.3

Retirement

Same as for pension valuation. Approximate average retirement ages:

Nonunion	60
Telops union	61
Other union	63

Termination

Same as for pension valuation

Disability

None assumed

GTE Corporation
Actuarial Methods and Assumptions for
January 1, 1993 Retiree Welfare Valuation

DEMOGRAPHIC ASSUMPTIONS (continued)

Dependent status

- Current retirees: Actual spouse data was used for current retirees. If spouse birthdate was not provided, wives were assumed to be 3 years younger than husbands.
- Future retirees: Based upon analysis of GTE demographics as shown below:

<u>Retirement Age</u>	<u>Percent Married at Retirement</u>	
	<u>Male</u>	<u>Female</u>
Under 50	86%	66%
50 - 54	89	66
55 - 59	90	63
60 - 64	90	55
65 and over	90	45

Spouse's age (for future retirees)

Wives are three years younger than husbands.

Participation rates (medical)

For plans requiring contributions by the retiree/spouse, a percentage of future retirees/spouses are assumed to decline retiree medical coverage. Decreased participation is expected as the dollar amount of required contributions increases. See Exhibit B for details.

GTE Corporation
Actuarial Methods and Assumptions for
January 1, 1993 Retiree Welfare Valuation

**LIFE INSURANCE
ASSUMPTIONS**

**"Cashout" election rate
for life insurance (where
available)**

For current retirees, life insurance amounts were not available in the data except for Government Systems and Contel retirees. For plans with a cashout option at retirement, an assumption was made to approximate the life insurance amounts currently in effect:

**Percentage of
insurance still in effect:**

- Nonunion 60%
- Union 70%

**Other life insurance
assumptions**

Life insurance amounts for current retirees were estimated if not provided in retiree data (85% of retirees). For pay-related life insurance, the amount of life insurance for current retirees was estimated by using current average salary levels and projecting back to the retirement date to estimate salary at retirement.

GTE CORPORATION

**Actuarial Assumptions for Forecast
for January 1, 1993 Retiree Welfare Valuation**

Claims experience	Costs increase according to valuation assumptions.
Demographic	Experience follows valuation assumptions.
Population	Constant number of active employees.
Asset return	Experience follows valuation assumptions.
Plan provisions	Current plan provisions were assumed to continue unchanged over the forecast period.
Future VEBA contributions	None assumed except for Government Systems retiree life insurance. VEBA, for which future contributions are assumed to equal the service cost each year plus 15-year amortization of the 1/1/93 unfunded actuarial liability.

GTE CORPORATION

Data Sources and Development of Per Capita Medical Cost Assumptions for January 1, 1993 Retiree Welfare Valuation

SOURCES OF CLAIM DATA

For the GTE retiree medical plans:

- Summaries of numbers of covered participants and dependents and related incurred non-drug claims by claimant age groups within regions for 1990, 1991 and the first six months of 1992 (from Medstat database)
- Summaries of paid drug claims (both mail order and non-mail order) by claimant age groups within regions for 1990 - 1992 (from Travelers)

For the Contel retiree medical plan:

- Summaries of paid claims for 1991 and 1992 (excluding mail-order drugs) and numbers of covered participants, split between "old" and "new" plans
- Amount of mail-order drug claims were not available for 1991 and were estimated based on GTE experience

For the Hawaii retiree medical plan, summaries of paid claims for 1991 and 1992 and numbers of covered participants.

DEVELOPMENT OF PER CAPITA MEDICAL COST ASSUMPTIONS

For the GTE retiree medical plans:

- Historical experienced per capita claims cost were calculated by age group within region for 1990, 1991 and 1992 (non-drug experience for 1992 was annualized)
- Per capita claims costs were projected to 1993 separately from 1990, 1991 and 1992 experience, based on assumed trend
- 1993 per capita claims costs were developed as a weighted average of 1990, 1991 and 6 months 1992 experience (weights used were 33.3%, 41.7% and 25% respectively)

**GTE Corporation
Data Sources and Development of
Per Capita Medical Cost Assumptions for
January 1, 1993 Retiree Welfare Valuation**

For the GTE retiree medical plans: (continued)

- **Per capita claims costs were increased by 4% to reflect administrative fees and reflected minor adjustments for apparent understatement of post-65 and spouses per capita costs**
- **Post-65 costs for retirees with a "carve out" approach to coordination of GTE benefits with Medicare (generally, post-1989 retirees) were established as 75% of those for "pre-1990" retirees to reflect the different approach to coordination of plan benefits with Medicare**

For the Contel retiree medical plans:

- **Experienced per capita claims costs on a "paid" basis were determined for the "old" plan for 1991 and 1992, and were then adjusted to an incurred basis.**
- **Per capita claims costs for the "old" plan were projected to 1993 based on assumed trend separately from the 1991 and 1992 experience, and were increased by 4% to reflect administrative expenses**
- **1993 per capita claims costs were developed as a weighted average of projected 1993 costs based on 1991 and 1992 experience (weighting used was 40% and 60%, respectively)**
- **These "composite" old plan 1993 per capita costs were adjusted to produce separate rates for California/Nevada and all other locations**
- **Corresponding costs for the "new" plan(s) were developed as a percentage of those for the "old" plan, based on the relationship of expected or "ratebook" costs for the different plan designs**

SOURCES OF DEMOGRAPHIC DATA

Demographic data was collected from several sources as of January 1, 1993 for the valuation. Retiree data for Contel was provided by the Retiree Benefit Center. All other retiree data (except Hawaii) was supplied by Travelers, and supplemented by information from Shareholder Services and Telops. For Hawaii, 1993 pension data was used, supplemented by approximately 300 additional assumed retirees (to match reported headcounts).

Data for active employees was provided by Shareholder Services, and was supplemented by additional information provided by Telops for GTE and Contel Telops employees.

GTE CORPORATION

**Per Capita Medical Cost Assumptions for
January 1, 1993 Retiree Welfare Valuation**

	Age	<u>Pre-1990 Retirees</u>		<u>Post-1989 Retirees</u>		<u>Applies to:</u>
		<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>	
SET A	<50	\$4,162	\$2,528	\$4,162	\$2,528	GTE Southwest Telops Headquarters GTE Supply
	50 - 54	4,578	2,780	4,578	2,780	
	55 - 59	5,053	3,069	5,053	3,069	
	60 - 64	5,945	3,611	5,945	3,611	
	65 - 69	1,260	789	945	592	
	70 - 74	1,361	852	1,021	639	
	75 - 79	1,462	915	1,096	686	
	80 - 84	1,562	978	1,172	734	
	85 +	1,663	1,041	1,247	781	
SET B	<50	\$2,846	\$1,919	\$2,846	\$1,919	All GTE North Companies GTE Northwest
	50 - 54	3,130	2,111	3,130	2,111	
	55 - 59	3,455	2,330	3,455	2,330	
	60 - 64	4,065	2,741	4,065	2,741	
	65 - 69	1,060	763	795	572	
	70 - 74	1,145	824	859	618	
	75 - 79	1,230	885	922	664	
	80 - 84	1,314	946	986	710	
	85 +	1,399	1,007	1,049	755	
SET C	<50	\$2,990	\$2,294	\$2,990	\$2,294	All GTE South Companies Data Services (GTEDS) Communications Corp (GTECC)
	50 - 54	3,289	2,523	3,289	2,523	
	55 - 59	3,631	2,785	3,631	2,785	
	60 - 64	4,272	3,277	4,272	3,277	
	65 - 69	1,172	996	879	747	
	70 - 74	1,266	1,076	949	807	
	75 - 79	1,360	1,155	1,020	867	
	80 - 84	1,453	1,235	1,090	926	
	85 +	1,547	1,315	1,160	986	

GTE Corporation
Per Capita Medical Cost Assumptions for
January 1, 1993 Retiree Welfare Valuation

EXHIBIT A
(continued)

	<u>Age</u>	<u>Pre-1990 Retirees</u>		<u>Post-1989 Retirees</u>		<u>Applies to:</u>
		<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>	
SET D	< 50	\$4,416	\$2,946	\$4,416	\$2,946	GTE California GTE Alaska GTEL
	50 - 54	4,858	3,241	4,858	3,241	
	55 - 59	5,363	3,578	5,363	3,578	
	60 - 64	6,309	4,209	6,309	4,209	
	65 - 69	1,252	1,050	939	788	
	70 - 74	1,352	1,134	1,014	851	
	75 - 79	1,452	1,218	1,089	914	
	80 - 84	1,552	1,302	1,164	977	
	85 +	1,653	1,386	1,239	1,040	
SET E	< 50	\$2,100	\$1,680	\$2,100	\$1,680	GTE Hawaii
	50 - 54	2,310	1,848	2,310	1,848	
	55 - 59	2,550	2,040	2,550	2,040	
	60 - 64	3,000	2,400	3,000	2,400	
	65 - 69	550	440	550	440	
	70 - 74	594	475	594	475	
	75 - 79	638	510	638	510	
	80 - 84	682	546	682	546	
	85 +	726	581	726	581	
SET F	< 50	\$3,131	\$2,683	\$3,131	\$2,683	All Non-Telops Units: Electrical Products Government Systems Service Corp. Telecommunications Products & Services AG/CSC
	50 - 54	3,444	2,951	3,444	2,951	
	55 - 59	3,802	3,258	3,802	3,258	
	60 - 64	4,473	3,833	4,473	3,833	
	65 - 69	1,356	1,356	1,017	1,017	
	70 - 74	1,464	1,464	1,098	1,098	
	75 - 79	1,573	1,573	1,180	1,180	
	80 - 84	1,681	1,681	1,261	1,261	
	85 +	1,790	1,790	1,342	1,342	

GTE Corporation
Per Capita Medical Cost Assumptions for
January 1, 1993 Retiree Welfare Valuation

EXHIBIT A
(continued)

	<u>Age</u>	<u>California & Nevada</u>		<u>All Other Units</u>		<u>Applies to:</u>
		<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>	
SET G	< 50	\$3,769	\$2,914	\$3,151	\$2,437	Contel "Old" Plans (Grandfathered plus pre- 1989 retirees)
	50 - 54	4,146	3,206	3,467	2,680	
	55 - 59	4,576	3,539	3,827	2,959	
	60 - 64	5,384	4,163	4,502	3,481	
	65 - 69	1,403	1,146	1,174	959	
	70 - 74	1,515	1,238	1,268	1,036	
	75 - 79	1,627	1,329	1,362	1,112	
	80 - 84	1,740	1,421	1,456	1,189	
	85 +	1,852	1,513	1,550	1,266	
SET H	< 50	\$3,015	\$2,331	\$2,521	\$1,949	Contel "New" Plan High Option (see note below)
	50 - 54	3,317	2,564	2,773	2,144	
	55 - 59	3,661	2,831	3,061	2,367	
	60 - 64	4,307	3,330	3,602	2,785	
	65 - 69	1,389	1,135	1,162	949	
	70 - 74	1,500	1,225	1,255	1,025	
	75 - 79	1,611	1,316	1,348	1,101	
	80 - 84	1,722	1,407	1,441	1,177	
	85 +	1,833	1,498	1,534	1,253	
SET I	< 50			\$2,994	\$2,315	Applies to: post-3/1/93 union retirees of Contel New York and Vermont
	50 - 54			3,293	2,546	
	55 - 59			3,635	2,811	
	60 - 64			4,277	3,307	
	65 - 69			822	671	
	70 - 74			888	725	
	75 - 79			954	778	
	80 - 84			1,019	832	
	85 +			1,085	886	

Note: Assumed costs for "new" plan middle and low options were a percentage of the above costs for the high option, as follows:

	<u>Percent of High Option Cost</u>
Middle Option	
• Pre-65	93.0%
• Post-65	99.5%
Low Option	
• Pre-65	86.0%
• Post-65	99.0%

GTE CORPORATION

**Medical Plan Participation Rates for
Future Retirees for
January 1, 1993 Retiree Welfare Valuation**

Participation rate assumptions generally vary based upon the level of contributions required by the retiree or spouse:

**Service-Related Contribution
Schedule (except EPG)**

<u>Years of Service at Retirement</u>	<u>Percent Participation</u>	
	<u>Retiree</u>	<u>Spouse</u>
0 - 9	73%	67%
10 - 14	73	67
15 - 19	82	78
20 - 24	91	89
25 - 29	96	94
30 +	98*	97*

* For GTE Labs, 96% for retiree and 94% for spouse.

**Service-Related Contribution
Schedule (for EPG)**

<u>Years of Service at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
0 - 14	73%	67%
15 - 19	78	73
20 - 24	87	83
25 - 29	94	91
30 +	98	97

GTE Telops Alaska

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 65	90%	80%
65 and Over	97	96

GTE Supply Non-union

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 65	93%	87%
65 and Over	97	96

GTE Corporation
 Medical Plan Participation Rates for
 Future Retirees for January 1, 1993
 Retiree Welfare Valuation

EXHIBIT B
 (continued)

**GTE Telops South Union and Telops
 Ohio Union**

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 65	97%	93%
65 and Over	97	96

**GTE California Union and
 GTEL Union**

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 60	90%	80%
60 - 64	100	94
65 and Over	100	97

**GTE Hawaii Union and all Contel
 Union and Non-union**

-----100% participation-----

**GTE Telops Union at Indiana CWA,
 and Pennsylvania (also pre-1994
 Wisconsin and Northwest Union)**

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 62	90%	80%
62 - 64	100	99
65 and Over	100	97

**GTE Telops Union at Illinois, Indiana
 IBEW, Michigan, Midwest (IA, MN,
 MO, NE), Northwest, and
 Wisconsin**

<u>Age at Retirement</u>	<u>Retiree</u>	<u>Spouse</u>
Under 60	90%	80%
60 - 64	100	99
65 and Over	100	97

**GTE Supply Union and
 AG Communication**

	<u>Retiree</u>	<u>Spouse</u>
Male	85%	50%
Female	75	80

THE PLAN FOR BARGAINED RETIRED GROUP INSURANCE

SECTION 1. ESTABLISHMENT

1.01. The Establishment of the Plan.

GTE Corporation has established, a plan, effective September 30, 1991 (Plan No. 504), as hereinafter set forth for providing medical benefits to eligible retired employees and their dependents. The plan, as stated herein and as amended from time to time, shall be known as The Plan for Bargained Retired Group Insurance.

1.02. Component Benefits.

The Plan shall include those Component Benefits provided under the designations listed in Schedules A and B.

SECTION 2. DEFINITIONS**2.01. Definitions.**

- (a) The following words and phrases as used in the Plan shall have the following meanings unless a different meaning is required by the context:
- (1) **Committee.** The term "Committee" means the Employee Benefits Committee of the Company.
 - (2) **Company.** The term "Company" means GTE Service Corporation, a New York corporation.
 - (3) **Component Benefit.** The term "Component Benefit" means an employee welfare benefit that is designated on Schedule A as one of the component benefits of the Plan or a description of such benefit as set forth in an applicable Plan document.
 - (4) **Employer.** The term "Employer" means any employer that is an affiliate of GTE and that has joined in the Trust Agreement as an Associate, as defined in the Trust Agreement.
 - (5) **ERISA.** The term "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
 - (6) **GTE.** The term "GTE" means GTE Corporation, a New York corporation.
 - (7) **Plan.** The term "Plan" means The Plan for Bargained Retired Group Insurance as set forth herein, including all exhibits, schedules, appendices and supplements hereto and all documents incorporated herein by reference, as each is amended from time to time.
 - (8) **Qualified Medical Child Support Order.** The term "Qualified Medical Child Support Order" shall mean any judgment, decree or order (including approval of a settlement agreement) issued by a court of competent jurisdiction which meets the requirements of Section 609(a) of ERISA and which: (i) provides for child support with respect to a child of a participant under the Plan or provides for the health benefit coverage to such a child, is made pursuant to a state domestic relations law (including a community property law), and relates to benefits under the Plan, or (ii) enforces a law relating to medical child support described in Section 1908 of the Social Security Act with respect to the Plan.
 - (9) **Trust.** The term "Trust" means the trust created by the Trust Agreement.
 - (10) **Trust Agreement.** The term "Trust Agreement" means the agreement between the Company and State Street Bank and Trust Company.

dated and effective as of September 30, 1991, as amended from time to time, and any successor thereto. The Trust Agreement is hereby incorporated by reference into and made a part of, the Plan.

(11) Trustee. The term "Trustee" means the trustee of the Trust.

(12) Year. The term "Year" means the fiscal year of the Plan commencing January 1 and ending December 31.

(b) Gender. When used in the Plan, masculine pronouns shall refer both to males and to females.

SECTION 3. BENEFITS

3.01. Coverage and Benefits.

- (a) The retired employees covered and the benefits provided by each Component Benefit shall be determined exclusively by the summary plan description for that Component Benefit; provided, however, that coverage and benefits under the Plan shall be provided in excess of such as may be provided by the summary plan description for a Component Benefit to the extent required by applicable law.
- (b) Notwithstanding the foregoing in subparagraph (a), effective August 9, 1993, the Plan shall provide benefits to dependent children planned with participants or beneficiaries for adoption under the same terms and conditions as apply in the case of dependent children who are natural children of participants or beneficiaries under the Plan, irrespective of whether the adoption has become final; and the Plan shall not restrict coverage of such a child solely on the basis of preexisting condition of such child at the time that such child would otherwise become eligible for coverage under the Plan, if the adoption or placement for adoption occurs while the participant or beneficiary is eligible for coverage under the Plan, in accordance with Section 609(c) of ERISA and the regulations thereunder.

3.02. Payment of Benefits.

Benefits provided by the Component Benefits shall be paid by the Plan. The liability of the Plan, the Trust and the Trustee to provide benefits under a Component Benefit shall be limited by the terms of the Component Benefit summary plan description, the Trust Agreement, and this Plan instrument.

3.03. Tax Withholding.

The amount of any benefit paid from the Plan to a participant or beneficiary under a Component Benefit shall be reduced by the amount of any income tax or employment tax that is required to be withheld pursuant to any applicable federal, state, or local law or any applicable foreign law.

3.04. Other Adjustments.

- The amount of any benefit paid from the Plan to a participant or beneficiary under a Component Benefit shall be reduced by the amount of any excess payments previously made by the Plan to that participant or beneficiary under that Component Benefit, regardless of whether such excess payment was made by reason of an error of the Committee or the Trustee or by reason of false or misleading information furnished by the participant or beneficiary or any other person. Such reduction shall continue until the entire amount of any such excess payments has been recovered.

3.05. Payment to Participant or Beneficiary.

- (a) Except as otherwise provided in paragraph (b), below, benefit payments under a Component Benefit shall be made to the participant in the Component Benefit or his beneficiary, if any.**
- (b) To the extent permitted under a Component Benefit, payments may be made to a third party to whom a participant or beneficiary has made a valid assignment of his right to receive such payments. In addition, if the Committee determines that a participant or beneficiary is not competent, the Committee may authorize the Plan to make benefit payments to the court-appointed legal guardian of the participant or beneficiary, to an individual who has become the legal guardian of the participant or beneficiary by operation of state law, or to another individual whom the Committee determines to be entitled to receive such payments on behalf of the participant or beneficiary.**
- (c) If a payment of benefits is made under a Component Benefits thereunder to a third party whom the Committee has determined to be entitled to receive such payment on behalf of a participant or beneficiary, the Plan, the Component Benefit and the Committee shall be relieved, to the fullest extent permitted by law, of any obligation to make a duplicate payment to or on behalf of such participant or beneficiary.**

Plan for Bargained Retired Group Ins.

- 5 -

August 8, 1994

SECTION 4. ADMINISTRATION

4.01. Administrative Committee.

The Committee shall be the "plan administrator" with respect to the Plan for purposes of the Employee Retirement Income Security Act of 1974. The Committee shall be responsible for administering the Plan, and except as otherwise provided by a Component Benefit summary plan description, the Committee shall also administer each Component Benefit.

4.02. Named Fiduciary.

The Committee shall be the "named fiduciary" with respect to the Plan for purposes of the Employee Retirement Income Security Act of 1974. Except as otherwise provided in a Component Benefit, the Committee shall be the "named fiduciary" with respect to the Component Benefits for purposes of the Employee Retirement Income Security Act of 1974.

4.03. Powers and Duties of the Committee.

The Committee shall have discretionary authority to determine eligibility for benefits, to construe the terms of the Plan and the Component Benefits, and to decide any and all matters arising under the Plan and the Component Benefits, including without limitation the right to remedy possible ambiguities, inconsistencies, or omissions by general rule or particular decision, provided that all such interpretations and decisions shall be applied in a uniform and nondiscriminatory manner to all participants and beneficiaries who are similarly situated. In addition to such authority and any implied powers and duties that may be needed to carry out the provisions of this instrument, the Committee shall have the following specific powers and duties with respect to the Plan, and with respect to any Component Benefit (or portion thereof) that the Committee administers:

- (a) To make and enforce such rules and regulations as it shall deem necessary or proper for the efficient administration of the Plan and the Component Benefits;
- (b) To authorize disbursements from the Plan and the Component Benefits, provided that any instructions of the Committee authorizing disbursements from the Plan and the Component Benefits shall be in writing and signed by a member of the Committee or a delegate that has been given such authority; and
- (c) To employ one or more persons to render advice with respect to any of its responsibilities under the Plan or any Component Benefit(s).

4.04. Delegations of Authority By the Committee.

The Committee may, in its discretion, delegate to any other person or persons authority to act on behalf of the Committee, including but not limited to the authority to make any determination or to sign checks, warrants, or other instruments incidental to the operation of the Plan or any Component Benefit(s) (or portion thereof) that the Committee administers, or to the making of any payment specified therein.

4.05. Employment of Assistants.

The Committee and the Company are authorized to employ counsel and to employ persons to provide such actuarial, clerical, or other services as they may require in carrying out their duties under the Plan or any Component Benefit(s) provision.

4.06. Administration of the Trust.

Subject to the provisions of the Trust Agreement, the Trustee shall have responsibility for the management and control of the assets of the Plan that are held in the Trust. At the direction of the Committee, or any person to whom the Committee has delegated such authority pursuant to Section 4.04 hereof, the Trustee shall make payments from the Trust in order to pay benefits provided to participants and beneficiaries under a Component Benefit and in order to pay the administrative expenses of the Plan or any Component Benefit. The Committee may appoint or remove the Trustee, as provided in the Trust Agreement.

4.07. Processing of Claims.

The Committee shall adopt such rules for processing claims under the Plan and the Component Benefits as it deems advisable or as may be required by the Employee Retirement Income Security Act of 1974.

4.08. Claims Review Procedure.

- (a) Any participant or beneficiary whose claim for benefits under the Plan is denied shall be provided with a written explanation setting forth the specific reasons for the denial, a reference to the specific provision(s) of the Plan on which the denial is based, a description of any additional material or information necessary to perfect the claim, and an explanation of the Plan's claim review procedure.
- (b) The participant, his legal representative, or his beneficiary may request that the Committee reconsider the denial, by filing with the Committee a written request for reconsideration within 60 days of the receipt of written notice of the denial. In pursuing such a request, the claimant may review pertinent documents and may submit issues and comments in writing. The Committee shall make its decision on reconsideration within 60 days of receipt of the request for reconsideration, unless special circumstances require an extension of time for processing, in which case a decision shall

be rendered as soon as possible, but not later than 120 days after receipt of the request for reconsideration. If such an extension of time is required, the Committee shall furnish written notice of the extension of time to the claimant before the end of the original 60 day period. The decision on reconsideration shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of the Plan on which the decision is based. If the decision on reconsideration is not furnished within the time specified above; the claim shall be deemed denied on reconsideration. All interpretations, determinations, and decisions of the Committee in respect of any claim shall be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

SECTION 5. FUNDING**5.01. Plan is a Single Plan.**

The Plan and all of the Component Benefits shall be a single plan for purposes of the Employee Retirement Income Security Act of 1974. All of the assets of the Plan that are held in the Trust shall be available to provide benefits under any or all of the Component Benefits that together make up the Plan. The Employer's contributions to the Trust under a Component Benefit shall be available not only for the provision of benefits and the payment of any administrative expenses under that Component Benefit, but also to provide benefits under the other Component Benefit(s) that make up the Plan and to pay administrative expenses under the Plan and under the other Component Benefit(s).

Notwithstanding the foregoing, participants and beneficiaries enrolled in a health maintenance organization (HMO) shall look solely to the HMO for provision of health care services and payment of any claim relating to such services. If a Component Benefit is provided through an insurance contract with an insurance company, participants and beneficiaries shall look solely to such insurance company for the provision of such Component Benefit.

5.02. Contributions to the Trust.

- (a) The Employers shall contribute to the Trust from time to time an amount sufficient (after taking into account the assets of the Trust, contributions by participants and beneficiaries and contributions to the other funding arrangements provided for herein) to provide for benefits that participants and beneficiaries are anticipated to be entitled to receive under the Component Benefit(s) during the Year. In addition, the Employers, in their sole discretion, may provide benefits for participants and beneficiaries by paying contributions to one or more of the following: an insurance company as premium for an insurance contract or an HMO pursuant to an agreement with such HMO.
- (b) Participants and beneficiaries shall make such contributions to the Trust as are specified by the summary plan description for the applicable Component Benefit and by any elections that participants and beneficiaries make in accordance with the summary plan description for the applicable Component Benefit.
- (c) The reasonable expenses incident to the administration and operation of each Component Benefit, including the compensation of the Trustee, attorneys, advisors, actuaries, fiduciaries, and such other persons providing technical and clerical assistance as may be required, shall be paid out of the Trust unless the Company notifies the Committee that the Company or the Employers have paid or will pay such expenses.
- (d) If any Employer makes a contribution to the Trust by a mistake of fact, the Trustee shall return such contribution to that Employer within one year after the payment of the contribution.

- (e) The assets of the Plan shall not include any of the general assets of the Employer that have not been contributed to the Trust, an insurance company, or an HMO.

SECTION 6. AMENDMENT AND TERMINATION**6.01. Amendment or Termination.**

It is the intention of GTE that the Plan and its Component Benefits will continue indefinitely. However, GTE reserves the right to amend, modify, suspend, revoke, or terminate the Plan or any Component Benefit, in whole or in part, at any time and without notice, which right it hereby delegates to the Company or any committee thereof. The Plan and any Component Benefit may be amended retroactively.

6.02. Amendment of Schedule A.

Pursuant to the Trust Agreement, the Company may amend the Plan by adding a Component Benefit to, or removing a Component Benefit from, Schedule A.

6.03. Effect of Amendment or Termination.

- (a) No amendment to or termination of the Plan or any Component Benefit shall cause or permit the funds of the Plan held in the Trust to be used for any purpose other than the defrayal of administrative expenses and payment to participants and beneficiaries of the benefits provided for under a Component Benefit, except as provided in subsections 3.03 and 5.02(c) hereof.
- (b) Upon termination of any Component Benefit, the Trustee shall use the funds of the Plan held in the Trust to pay benefits that participants and beneficiaries have become entitled to receive under the terms of that Component Benefit as of the date of termination, and to pay the administrative expenses incurred by the Plan and the Trust before and in connection with the termination, both in accordance with the written direction of the Committee.
- (c) Upon termination of the Plan, the Trustee shall use the funds of the Plan held in the Trust to pay benefits that participants and their designated beneficiaries have become entitled to receive under the terms of the Plan, and to pay the administrative expenses incurred by the Plan and the Trust before and in connection with the termination, both in accordance with the written direction of the Committee. The Trustee shall dispose of the Plan's remaining funds held in the Trust in accordance with the written direction of the Committee. Such direction shall require the funds to be disposed of for the sole benefit of participants in the Plan and their beneficiaries, except as provided in subsections 3.03 and 5.02(c) hereof.

SECTION 7. MISCELLANEOUS

7.01. Segregation of Trust Assets.

The Trustee may, pursuant to the Trust Agreement, segregate part of the funds held in the Trust and hold such segregated funds in a separate trust. With respect to the separate trust, the Plan shall be construed to apply to such trust; any reference herein to "Trust" shall refer to the trust; any reference herein to "Company" shall refer to the employer whose contributions to the Trust are held in the separate trust; and any reference herein to "Committee" shall refer to such employer's committee appointed to administer the Plan with respect to the trust.

7.02. Governing Law.

- (a) The Plan shall be governed by and administered under the Employee Retirement Income Security Act of 1974, as amended from time to time, and, to the extent not preempted thereby, under the laws of the State of Connecticut.
- (b) Except as otherwise provided in a Component Benefit, the Component Benefits shall be governed by and administered under the Employee Retirement Income Security Act of 1974, as amended from time to time, and, to the extent not preempted thereby, under the laws of the State of Connecticut.

7.03. Agent for Service of Process.

Service of legal process involving the Plan may be delivered to the Committee at: One Stamford Forum, Stamford, CT 06904.

7.04. No Vested Rights.

To the maximum extent permitted by law, no person shall acquire any right, title, or interest in or to any portion of the Trust otherwise than by the actual payment or distribution of such portion under the provisions of the Plan or a Component Benefit, or acquire any right, title, or interest in or to any benefit referred to or provided for in the Plan or any Component Benefit otherwise than by actual payment of such benefit.

7.05. Information to be Furnished.

Any person eligible to receive benefits hereunder shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan or a Component Benefit. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient ground for delay in the payment of any benefits that may be due under the Plan or a Component Benefit until such information or proof is received by the Committee. If any person claiming benefits under the Plan or a Component Benefit makes a false statement that is material to such person's claim for benefits,

the Committee may offset against future payment any amount paid to such person to which such person was not entitled under the provisions of the Plan or a Component Benefit.

7.06. Non-Alienation.

Except to the extent provided in a Component Benefit, no participant, beneficiary, or any other person shall have any right or power, by draft, assignment, or otherwise, to assign, mortgage, pledge, or otherwise encumber in advance any interest in or portion of the Trust, or any benefit provided under a Component Benefit, or to give any order in advance upon the Trustee therefor; and every attempted draft, assignment, or other disposition thereof shall be void. Notwithstanding the foregoing, the Plan shall comply with Section 609(a) of ERISA and the regulations thereunder with respect to all Qualified Medical Child Support Orders received by the Plan on or after August 9, 1993, in accordance with such written procedures as shall be established by the Committee.

7.07. Spendthrift Provisions.

The Plan shall not be liable in any way, whether by process of law or otherwise, for the debts or other obligations of any participant, beneficiary, or other person. Except to the extent provided in a Component Benefit, benefits payable under a Component Benefit shall not be subject, in any manner, to anticipation, alienation, sale, transfer, or assignment by any person, and any attempt to anticipate, alienate, sell, transfer or assign such benefits shall be void.

7.08. Non-Guarantee.

Neither GTE, the Employer, nor any fiduciary shall be held or deemed in any manner to guarantee the Plan or a Component Benefit against loss or depreciation.

7.09. Incapacity.

If the Plan Administrator determines that any person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Plan Administrator to have incurred expenses for such person. Payments made pursuant to this Section shall completely discharge the Plan, the Plan Administrator, the Company and the Employer of any liability to the Participant or other person arising under the Plan.

7.10. Death.

Claims on behalf of a Participant after the Participant's death may be made by, and, unless denied, shall be paid to, the Participant's estate. Payments made pursuant to this Section shall completely discharge the Plan, the Plan Administrator, the Company and the Employer of any liability to the Participant or other person arising under the Plan.

7.11. Incorporation by Reference.

The Summary Plan Description for the Plan the Trust Agreement, and all contracts between the Company and the insurance companies, health maintenance organizations and other firms that provide services under the Plan, as each is amended from time to time and the summary plan descriptions for any Component Benefits are hereby specifically incorporated into the Plan by reference.

SECTION 8. STATUTORY CONTINUATION COVERAGE**8.01. General Rule.**

If a "qualified beneficiary" described in subsection 8.02 hereof becomes ineligible for coverage under the Plan by reason of a "qualifying event" described in subsection 8.03 hereof, such qualified beneficiary shall be eligible to elect, within the election period described in subsection 8.05 hereof, the continued coverage described in subsection 8.06 hereof. (For purposes of this Section 8, "Employee" shall mean any retired employee who is eligible for coverage under the Plan.)

8.02. Qualified Beneficiary.

For purposes of this Section 8, the term "qualified beneficiary" shall mean the following:

- (a) In the case of a qualifying event described in paragraph (a) or (b) of subsection 8.03, any individual who, on the day before such qualifying event, was covered under the Plan as the spouse or dependent child of the Employee with respect to whom the qualifying event occurred;
- (b) In the case of a qualifying event described in paragraph (c) of subsection 8.03 hereof, any individual who, on the day before such qualifying event, was covered under the Plan as the dependent child of an Employee.

8.03. Qualifying Events.

For purposes of this Section 8, the term "qualifying event" shall mean, with respect to any Employee, any of the following events that would result in the loss of coverage of a qualified beneficiary:

- (a) The death of an Employee;
- (b) The divorce or legal separation of the Employee from the Employee's spouse; or
- (c) An Employee's dependent child's ceasing to qualify as a Dependent under the Plan.

8.04. Notice Provisions.

Notice shall be provided, in accordance with regulations prescribed by the Secretary of the Treasury, in the following circumstances:

- (a) At the time of an Employee's commencement of participation in the Plan pursuant to subsection 3.01 hereof, the Plan Administrator shall provide written notice to such Employee and the spouse (if any) of such Employee of the rights provided under this Section 8.

- (b) The Employer of an Employee shall notify the Plan Administrator, within 30 days after the date of the qualifying event, that a qualifying event described in paragraph (a) of subsection 8.03 hereof has occurred with respect to such Employee.
- (c) Each qualified beneficiary with respect to whom a qualifying event described in paragraph (a), (b) or (c) of subsection 8.03 hereof occurs shall be responsible for notifying the Plan Administrator in writing, within 60 days after the date of the qualifying event, that such qualifying event has occurred. If the qualified beneficiary does not send the notice described in this paragraph (c) to the Plan Administrator within 60 days after the later of the date of the qualifying event or the date that the qualified beneficiary loses coverage on account of the qualifying event, the qualified beneficiary shall not be eligible to elect coverage under this Section 8.
- (d) To the extent required by subparagraphs (1), (2), and (3), below, the Plan Administrator shall notify any qualified beneficiary with respect to whom a qualifying event has occurred of such qualified beneficiary's rights under this Section 8:
 - (1) In the case of a qualifying event described in paragraph (a) of subsection 8.03 hereof, the Plan Administrator shall give such notice within 14 days of the date on which the Employer notifies the Plan Administrator of the qualifying event pursuant to paragraph (b) of this subsection 8.04;
 - (2) In the case of a qualifying event described in paragraph (a), (b) or (c) of subsection 8.03 hereof with respect to which the Employee or qualified beneficiary has notified the Plan Administrator pursuant to paragraph (c) of this subsection 8.04, the Plan Administrator shall give such notice within 14 days of the date on which the Plan Administrator receives the notice described in paragraph (c) of this subsection 8.04; and
 - (3) Any notice given pursuant to subparagraph (1) or (2), above, to a qualified beneficiary who is the spouse of an Employee shall be treated as notice to all other qualified beneficiaries residing with such spouse at the time of such notice.

8.05. Election Provisions.

A qualified beneficiary who becomes eligible for coverage pursuant to this Section 8 shall not be covered under this Section 8 unless such qualified beneficiary files a coverage election with the Plan Administrator in the manner prescribed by the Plan Administrator.

- (a) **Time of Election.** A qualified beneficiary's written coverage election must be filed with the Plan Administrator during the period that:
 - (1) Begins not later than the date on which the qualified beneficiary

loses coverage under the Plan by reason of a qualifying event described in subsection 8.03, above; and

(2) Ends not earlier than 60 days after the later of:

(A) the date described in paragraph (1), above; or

(B) the date on which the Plan Administrator provides the notice described in paragraph (d) of subsection 8.04 hereof.

- (b) **Manner of Election.** Each qualified beneficiary may make a separate election with respect to the coverage provided under this Section 8. However, a qualified beneficiary who is an Employee or who is the spouse of an Employee may make a binding election to provide another qualified beneficiary with coverage under this Section 8. An election on behalf of a minor child may be made by the child's parent or legal guardian. An election on behalf of a qualified beneficiary who is incapacitated or who dies may be made by the spouse or legal representative of the qualified beneficiary, or by his estate.
- (c) **Waiver of Coverage.** A qualified beneficiary who waives coverage under this Section 8 may revoke the waiver at any time before the end of the election period described above, provided that coverage under this Section 8 shall be effective from the date of the revocation and shall not apply retroactively to the period between the date of the qualifying event and the date of the revocation.

8.06. **Coverage Provisions.**

The coverage provided pursuant to this Section 8 shall be as follows:

- (a) **Type of Coverage.** The coverage shall consist of coverage that, as of the time the coverage is being provided, is identical with the coverage provided to similarly situated beneficiaries under the Plan with respect to whom a qualifying event has not occurred. If coverage under the Plan is modified for any group of similarly situated beneficiaries, the coverage under this Section 8 shall be modified in the same manner for the corresponding group of qualified beneficiaries covered pursuant to this Section 8.
- (b) **Period of Coverage.** The coverage shall extend for a period beginning on the date of the first qualifying event to occur with respect to a qualified beneficiary covered pursuant to this Section 8 (except as provided in subsection 8.05(c), above, with respect to the revocation of a waiver of coverage) and ending not earlier than the earliest of the following dates that is applicable.
- (1) in the case of any qualifying event the date that is 36 months after the date of the qualifying event;

- (2) in the case of any qualifying event, the date on which the Employer ceases to maintain any group health plans;
- (3) in the case of any qualifying event, the date on which coverage ceases by reason of the qualified beneficiary's failure to make timely payment of the premium required under subsection 8.07 hereof; or
- (4) in the case of any qualifying event, the date of the first of the following events to occur after the date of the election described in subsection 8.05 hereof:
 - (A) the qualified beneficiary first becomes covered under any other group health plan (as an employee or otherwise), provided that this clause shall apply only if the other group health plan does not contain any exclusion or limitation with respect to any pre-existing condition of such qualified beneficiary; or
 - (B) the qualified beneficiary first becomes entitled to benefits under Medicare.

8.07. Premium Provisions.

A qualified beneficiary who becomes eligible for coverage pursuant to this Section 8 shall not be covered under this Section 8, or shall not continue to be covered under this Section 8, unless such qualified beneficiary pays premiums in accordance with the following rules:

- (a) **Amount of Premium.** The premium for any period of coverage under this Section 8 shall be an amount prescribed by the Plan Administrator that does not exceed 102 percent of the "applicable premium" for such period. The Plan Administrator shall determine the "applicable premium" as follows:
 - (1) Except as provided in subparagraph (2), below, the applicable premium with respect to any period of coverage for a qualified beneficiary under this Section 8 shall be equal to a reasonable estimate of the cost to the Plan of providing coverage for such period for similarly situated beneficiaries with respect to whom a qualifying event has not occurred, determined
 - (A) on an actuarial basis;
 - (B) taking into account such factors as the Secretary of the Treasury may prescribe in regulations; and
 - (C) without regard to whether such cost is paid by the Employer or by an Employee.
 - (2) Except as provided in subparagraph (3), below, if the Plan Administrator elects to have this subparagraph (2) apply, the

"applicable premium" with respect to any period of coverage for a qualified beneficiary under this Section 8 shall be equal to:

- (A) the cost to the Plan of providing coverage for similarly situated beneficiaries with respect to whom a qualifying event has not occurred, determined for the same period occurring during the preceding determination period (as defined in subparagraph (4) below), adjusted by
 - (B) the percentage increase or decrease in the implicit price deflator of the gross national product (calculated by the Department of Commerce and published in the Survey of Current Business) for the 12-month period ending on the last day of the sixth month of such preceding determination period.
- (3) The Plan Administrator shall not calculate the applicable premium under subparagraph (2), above, in any case in which there is any significant difference (determined at the time the applicable premium is calculated) in coverage under the Plan, or in participants covered by the Plan, between the determination period for which the applicable premium is calculated and the preceding determination period.
 - (4) The Plan Administrator shall calculate¹³ the applicable premium for a period of 12 months (the "determination period") established by the Plan Administrator and applied consistently from year to year. The Plan Administrator shall calculate the applicable premium before the beginning of such determination period.
- (b) Payment of Premiums. A qualified beneficiary who has elected coverage pursuant to this Section 8 shall pay the premium prescribed by this subsection 8.06 to the Plan Administrator in accordance with the following rules:
- (1) Initial Premium. If a qualified beneficiary has elected coverage under this Section 8 after the date of a qualifying event, the qualified beneficiary shall pay, no later than 45 days after the date of such election, the premium for the period of coverage from the date of the qualifying event to the last day of the month in which the election is made, provided that the qualified beneficiary shall not be required to pay the premium with respect to a period during which the qualified beneficiary had waived coverage under this Section 8.
 - (2) Subsequent Premiums. The premium for subsequent periods of coverage under this Section 8 shall be due at the beginning of each month during which such coverage remains in effect, provided that a premium shall be deemed to be timely if it is paid no later than 30 days after the date on which it became due pursuant to this subparagraph (2).

8.08. Other Rules.

- (a) **Insurability.** Coverage under this Section 8 shall not be conditioned on evidence of insurability and shall not discriminate on the basis of lack of insurability.
- (b) **Applicability of Plan Provisions.** A qualified beneficiary who elects to receive continued coverage under this Section 8 shall be subject to the provisions of the Plan that applied to such qualified beneficiary prior to the qualifying event.

SCHEDULE A TO THE PLAN FOR BARGAINED RETIRED GROUP INSURANCE

Medical Benefits as set forth in the Summary Plan Description and/or Collective Bargaining Agreement for each of the following Bargaining Units (NON-VEBA).

STATE	UNION	OP GROUP	CONTRACT ID
Illinois (Altel)	CWA 4270	GNL	01
Illinois (Altel)	IBEW 185	GNL	57
Pennsylvania	IBEW 128	CNA	53
Indiana	CWA	GNI	10
Hawaii	IBEW 1357	GWH	70
North Carolina (Comel)	CWA 3573	CSD	18
Kentucky	CWA 3371, 3372	GER	01
Michigan (Altel)	IBEW 1108	GNG	54
Michigan (Altel)	IBEW 1108	GNG	55
Michigan (Altel)	IBEW 1108	GNG	53
Michigan	IBEW 1108	GNG	51
			52
Cust. Net. (TX)	CWA		
Illinois	IBEW 51, 702	GNL	51
			53
South Carolina	IBEW 1431	GSH	52
Missouri	IBEW 257	GCM	51
Indiana	IBEW	GNL	51
			53
Minnesota	IBEW 949, 1716	CCQ	59
Cust. Net. (MN)	IBEW		
Illinois	IAM 1000	GNL	54
Kentucky	IBEW 483	GSK	51
Indiana	UAWA 13211	CNF	63
Indiana	UAWA 15332	CNF	61
GTE Comm. Corp.	IBEW 524	GE1	61
Supply	CWA 9588	GU6	50

**SCHEDULE A TO THE PLAN FOR
BARGAINED RETIRED GROUP INSURANCE**

STATE	UNION	OP GROUP	CONTRACT ID
Iowa/Nebraska	IBEW 204	GCM	52
Michigan (Afla)	CWA 4011	GNG	02
Michigan (Afla)	CWA 4038	GNG	01
ITC/Micronesia	IBEW		
(Contel) Illinois	IBEW 196, 399, 702	CNH	58 60 62
Cust. Net. (NY)	CWA 1122	CR7	(NONE)
Southwest	CWA 2171	GCS	01
Contel California	IBEW 543	CWP	62
Contel (Aqua. Sys. Inc.)	IBEW 543	CWB	62
Contel California	CWA 8408, 9477	CWP	18
Northwest	CWA 7670	GNW	25
Virginia	CWA 2278	GSV	15
Pennsylvania	IBEW 1461, 1635 1637, 1741, 2451, 2635, 2636, 2637, 2741	GNP	51
Arizona/New Mexico	CWA	CWL	58
Missouri	CWA 6301/6373	GCM	01 02
Wisconsin	CWA 4671 4672, 4674, 4675	GNW	01
Contel Virginia	CWA 2275	CSB	18
Indiana	IBEW 723	CNF	57
Indiana	IBEW 1393	CNF	59

**SCHEDULE A TO THE PLAN FOR
BARGAINED RETIRED GROUP INSURANCE**

STATE	UNION	OP. GROUP	CONTRACT ID
Midwest (Missouri)	CWA 6310, 6311, 6312	CCN	10
Alabama	CWA 3071, 3072	GSA	17
California	CWA 9000, 9400, 9404, 9510, 9573, 9574, 9575 9576, 9583, 9584, 9586, 9587, 9588	GWC	01
Iowa/Nebraska	CWA 7172, 7471	GCM	03 04
Alabama	CWA 3074	CSH	18
Northwest	IBEW 80	GWN	70
Arkansas	CWA 6573	CCY	19
Illinois (Custodians)	IBEW 702	GNL	58
Cust. Net. (CA)	CWA		
Ohio	CWA 4371, 4372, 4373, 4375, 4377, 4378, 4379, 4385	GNO	01
Florida	IBEW 824	GSF	51
Pennsylvania	CWA 106	CNA	12
Cust. Net. (Mo.)	CWA		
North Carolina	IBEW 289	GSQ	51 59
GTCL	CWA 9000	GD3	02
Ohio	IBEW 986, 642	GNO	51 52
Monroe, N. Carolina	CWA 3803	GSQ	10
Pennsylvania	BCTW 464	CNA	55

SCHEDULE B TO THE PLAN FOR BARGAINED RETIRED GROUP INSURANCE

Medical Benefits as set forth in the Summary Plan Description and/or Collective Bargaining Agreement for each of the following Bargaining Units (VEBA).

Advanced Systems	IBEW 543
Alabama	CWA 3971 and 3972
California	CWA
Contel - Alabama	CWA 3974
Contel - Arkansas	CWA 6573
Contel - California	CWA 9477, 9408
Contel - California	IBEW 543
Contel - Illinois	IBEW 196, 399, 62
Contel - Indiana	IBEW 723
Contel - Indiana	IBEW 1383
Contel - Iowa/Nebraska	IBEW 204; CWA 7172, 7471
Contel - Midwest	CWA 6312, 6311
Contel - Minnesota	IBEW 949, 1716
Contel - New Mexico/Arizona	CWA 7019
Contel - Missouri	CWA 6301, 6310, 6311, 6312
Contel - New York/Vermont	IBEW 363, 1725
Contel - New York/Vermont	IBEW 2326
Contel - North Carolina	CWA 3673
Contel - North Dakota	IBEW 949, 1716
Contel - Northwest	IBEW 89
Contel - Pennsylvania	CWA 106/13000
Contel - South Dakota	CWA 7505
Contel - Southwest	IBEW 57
Contel - Utah	IBEW 57
Contel - Virginia	CWA 2275
Customer Networks	IBEW 543
Florida	IBEW 824
GTECC	IBEW 824
GTEL	CWA 9000
Hawaii	IBEW 1357
Illinois	CWA 4671, 4672, 4674, 4675
Illinois	IAM & AQ IAM 1000
Indiana	USA; CIO USWA 13211 & 15332
Iowa	IBEW 204
Kentucky	IBEW 463
Midwest	CWA 7172 and 7471
Missouri	CWA 6301, 6373; IBEW 257
Nebraska	IBEW 204
New York	CWA 1111, 1122
North - Illinois	IBEW 51/702
North - Indiana	CWA 4770, 4773, 4780

**SCHEDULE B TO THE PLAN FOR
BARGAINED RETIRED GROUP INSURANCE**

North - Indiana	IBEW
North - Michigan	IBEW 1106
North - Missouri	IBEW 257
North - Ohio	IBEW 966
Northwest	CWA 7670
Northwest	IBEW 89
Pennsylvania	IBEW 1451, 1635, 1636, 1637
South - Durham, NC	IBEW 289
South - Georgia	IBEW 84
South - Kentucky	CWA 3371, 3372
South - Monroe, NC	CWA 3803
South - South Carolina	IBEW 1431
South - West Virginia	IBEW 2035
Southwest	CWA 8171
Supply	CWA 9588
Tennessee	IBEW 1087
West Virginia - Virginia	IBEW 2276
Wisconsin	CWA 7177

THE PLAN FOR GROUP INSURANCE

SECTION 1. ESTABLISHMENT

1.01. The Establishment of the Plan.

GTE Corporation has established, a plan, effective April 27, 1922 (Plan No. 501) as hereinafter set forth for providing medical (including retiree medical) and dental benefits to eligible employees and their dependents. The plan, as stated herein and as amended from time to time, shall be known as The Plan for Group Insurance.

1.02. Component Benefits.

The Plan shall include those Component Benefits provided under the designations listed in Schedule A.

SECTION 2. DEFINITIONS**2.01. Definitions.**

- (a) The following words and phrases as used in the Plan shall have the following meanings unless a different meaning is required by the context:
- (1) Committee. The term "Committee" means the Employee Benefits Committee of the Company.
 - (2) Company. The term "Company" means GTE Service Corporation, a New York corporation.
 - (3) Component Benefit. The term "Component Benefit" means an employee welfare benefit that is designated on Schedule A as one of the component benefits of the Plan or a description of such benefit as set forth in an applicable Plan document.
 - (4) Employer. The term "Employer" means any employer that is an affiliate of GTE and that has joined in the Trust Agreement as an Associate, as defined in the Trust Agreement.
 - (5) GTE. The term "GTE" means GTE Corporation, a New York corporation.
 - (6) GTE Family and Medical Leave Policy. The term "GTE Family and Medical Leave Policy" means the family and medical leave policy of GTE Corporation, as amended from time to time, established pursuant to the Family and Medical Leave Act of 1993.
 - (7) Plan. The term "Plan" means The Plan for Group Insurance as set forth herein, including all exhibits, schedules, appendices, and supplements hereto and all documents incorporated herein by reference, as each is amended from time to time.
 - (8) Qualified Medical Child Support Order. The term "Qualified Medical Child Support Order" shall mean any judgment, decree or order (including approval of a settlement agreement) issued by a court of competent jurisdiction which meets the requirements of Section 609(A) of ERISA and which: (i) provides for child support with respect to a child of a participant under the Plan or provides for the health benefit coverage to such a child, is made pursuant to a state domestic relations law (including a community property law), and relates to benefits under the Plan, or (ii) enforces a law relating to medical child support described in Section 1908 of the Social Security Act with respect to the Plan.
 - (9) Trust. The term "Trust" means the trust created by the Trust Agreement.

- (10) Trust Agreement. The term "Trust Agreement" means the agreement between the Company and The Connecticut Bank and Trust Company, N.A., dated and effective as of September 1, 1989, as amended from time to time; provided that, effective January 1, 1991, the term "Trust Agreement" means the agreement between the Company and State Street Bank and Trust Company, dated and effective as of January 1, 1991, as amended from time to time, and any successor thereto. The Trust Agreement is hereby incorporated by reference into, and made a part of, the Plan.
- (11) Trustee. The term "Trustee" means the trustee of the Trust.
- (12) Year. The term "Year" means the fiscal year of the Plan commencing January 1 and ending December 31.
- (b) Gender. When used in the Plan, masculine pronouns shall refer both to males and to females.

SECTION 3. BENEFITS

3.01. Coverage and Benefits.

- (a) The employees covered and the benefits provided by each Component Benefit shall be determined exclusively by the summary plan description for that Component Benefit; provided, however, that coverage and benefits under the Plan shall be provided in excess of such as may be provided by the summary plan description for a Component Benefit to the extent required by applicable law.
- (b) Notwithstanding the foregoing in subparagraph (a), effective August 9, 1993, the Plan shall provide benefits to dependent children placed with participants or beneficiaries for adoption under the same terms and conditions as apply in the case of dependent children who are natural children of participants or beneficiaries under the Plan, irrespective of whether the adoption has become final; and the Plan shall not restrict coverage of such a child solely on the basis of a preexisting condition of such child at the time that such child would otherwise become eligible for coverage under the Plan, if the adoption or placement for adoption occurs while the participant or beneficiary is eligible for coverage under the Plan, in accordance with Section 609(c) of ERISA and the regulations thereunder.

3.02. Payment of Benefits.

Benefits provided by the Component Benefits shall be paid by the Plan. The liability of the Plan, the Trust and the Trustee to provide benefits under a Component Benefit shall be limited by the terms of the Component Benefit summary plan description, the Trust Agreement, and this Plan instrument.

3.03. Tax Withholding.

The amount of any benefit paid from the Plan to a participant or beneficiary under a Component Benefit shall be reduced by the amount of any income tax or employment tax that is required to be withheld pursuant to any applicable federal, state, or local law or any applicable foreign law.

3.04. Other Adjustments.

The amount of any benefit paid from the Plan to a participant or beneficiary under a Component Benefit shall be reduced by the amount of any excess payments previously made by the Plan to that participant or beneficiary under that Component Benefit, regardless of whether such excess payment was made by reason of an error of the Committee or the Trustee or by reason of false or misleading information furnished by the participant or beneficiary or any other person. Such reduction shall continue until the entire amount of any such excess payments has been recovered.

3.05. Payment to Participant or Beneficiary.

- (a) Except as otherwise provided in paragraph (b), below, benefit payments under a Component Benefit shall be made to the participant in the Component Benefit or his beneficiary, if any.
- (b) To the extent permitted under a Component Benefit, payments may be made to a third party to whom a participant or beneficiary has made a valid assignment of his right to receive such payments. In addition, if the Committee determines that a participant or beneficiary is not competent, the Committee may authorize the Plan to make benefit payments to the court-appointed legal guardian of the participant or beneficiary, to an individual who has become the legal guardian of the participant or beneficiary by operation of state law, or to another individual whom the Committee determines to be entitled to receive such payments on behalf of the participant or beneficiary.
- (c) If a payment of benefits is made under a Component Benefit to a third party whom the Committee has determined to be entitled to receive such payment on behalf of a participant or beneficiary, the Plan, the Component Benefits thereunder and the Committee shall be relieved, to the fullest extent permitted by law, of any obligation to make a duplicate payment to or on behalf of such participant or beneficiary.

SECTION 4. ADMINISTRATION

4.01. Administrative Committee.

The Committee shall be the "plan administrator" with respect to the Plan for purposes of the Employee Retirement Income Security Act of 1974. The Committee shall be responsible for administering the Plan, and except as otherwise provided by a Component Benefit summary plan description, the Committee shall also administer each Component Benefit.

4.02. Named Fiduciary.

The Committee shall be the "named fiduciary" with respect to the Plan for purposes of the Employee Retirement Income Security Act of 1974. Except as otherwise provided in a Component Benefit, the Committee shall be the "named fiduciary" with respect to the Component Benefits for purposes of the Employee Retirement Income Security Act of 1974.

4.03. Powers and Duties of the Committee.

The Committee shall have discretionary authority to determine eligibility for benefits, to construe the terms of the Plan and the Component Benefits, and to decide any and all matters arising under the Plan and the Component Benefits, including without limitation the right to remedy possible ambiguities, inconsistencies, or omissions by general rule or particular decision, provided that all such interpretations and decisions shall be applied in a uniform and nondiscriminatory manner to all participants and beneficiaries who are similarly situated. In addition to such authority and any implied powers and duties that may be needed to carry out the provisions of this instrument, the Committee shall have the following specific powers and duties with respect to the Plan, and with respect to any Component Benefit (or portion thereof) that the Committee administers:

- (a) To make and enforce such rules and regulations as it shall deem necessary or proper for the efficient administration of the Plan and the Component Benefits;
- (b) To authorize disbursements from the Plan and the Component Benefits, provided that any instructions of the Committee authorizing disbursements from the Plan and the Component Benefits shall be in writing and signed by a member of the Committee or a delegate that has been given such authority; and
- (c) To employ one or more persons to render advice with respect to any of its responsibilities under the Plan or any Component Benefit(s).

4.04. Delegations of Authority By the Committee.

The Committee may, in its discretion, delegate to any other person or persons authority to act on behalf of the Committee, including but not limited to the authority to make any determination or to sign checks, warrants, or other instruments incidental to the operation of the Plan or any Component Benefit(s) (or portion thereof) that the Committee administers, or to the making of any payment specified therein.

4.05. Employment of Assistants.

The Committee and the Company are authorized to employ counsel and to employ persons to provide such actuarial, clerical, or other services as they may require in carrying out their duties under the Plan or any Component Benefit(s) provision.

4.06. Administration of the Trust.

Subject to the provisions of the Trust Agreement, the Trustee shall have responsibility for the management and control of the assets of the Plan that are held in the Trust. At the direction of the Committee, or any person to whom the Committee has delegated such authority pursuant to Section 4.04 hereof, the Trustee shall make payments from the Trust in order to pay benefits provided to participants and beneficiaries under a Component Benefit and in order to pay the administrative expenses of the Plan or any Component Benefit. The Committee may appoint or remove the Trustee, as provided in the Trust Agreement.

4.07. Processing of Claims.

The Committee shall adopt such rules for processing claims under the Plan and the Component Benefits as it deems advisable or as may be required by the Employee Retirement Income Security Act of 1974.

4.08. Claims Review Procedure.

- (a) Any participant or beneficiary whose claim for benefits under the Plan is denied shall be provided with a written explanation setting forth the specific reasons for the denial, a reference to the specific provision(s) of the Plan on which the denial is based, a description of any additional material or information necessary to perfect the claim, and an explanation of the Plan's claim review procedure.
- (b) The participant, his legal representative, or his beneficiary may request that the Committee reconsider the denial, by filing with the Committee a written request for reconsideration within 60 days of the receipt of written notice of the denial. In pursuing such a request, the claimant may review pertinent documents and may submit issues and comments in writing. The Committee shall make its decision on reconsideration within 60 days of receipt of the request for reconsideration, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of

the request for reconsideration. If such an extension of time is required, the Committee shall furnish written notice of the extension of time to the claimant before the end of the original 60 day period. The decision on reconsideration shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of the Plan on which the decision is based. If the decision on reconsideration is not furnished within the time specified above, the claim shall be deemed denied on reconsideration. All interpretations, determinations, and decisions of the Committee in respect of any claim shall be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

SECTION 5. FUNDING

5.01. Plan is a Single Plan.

The Plan and all of the Component Benefits shall be a single plan for purposes of the Employee Retirement Income Security Act of 1974. All of the assets of the Plan that are held in the Trust shall be available to provide benefits under any or all of the Component Benefits that together make up the Plan. The Employer's contributions to the Trust under a Component Benefit shall be available not only for the provision of benefits and the payment of any administrative expenses under that Component Benefit, but also to provide benefits under the other Component Benefit(s) that make up the Plan and to pay administrative expenses under the Plan and under the other Component Benefit(s).

Notwithstanding the foregoing, participants and beneficiaries enrolled in a health maintenance organization (HMO) shall look solely to the HMO for provision of health care services and payment of any claim relating to such services. If a Component Benefit is provided through an insurance contract with an insurance company, participants and beneficiaries shall look solely to such insurance company for the provision of such Component Benefit.

5.02. Contributions to the Trust.

- (a) The Employers shall contribute to the Trust from time to time an amount sufficient (after taking into account the assets of the Trust, contributions by participants and beneficiaries and contributions to the other funding arrangements provided for herein) to provide for benefits that participants and beneficiaries are anticipated to be entitled to receive under the Component Benefit(s) during the Year. In addition, the Employers, in their sole discretion, may provide benefits for participants and beneficiaries by paying contributions to one or more of the following: an insurance company as premium for an insurance contract or an HMO pursuant to an agreement with such HMO.
- (b) Participants and beneficiaries shall make such contributions to the Trust as an insurance company, or as HMO as are specified by the summary plan description for the applicable Component Benefit and by any elections that participants and beneficiaries make in accordance with the summary plan description for the applicable Component Benefit. If a Component Benefit permits participants to make contributions by salary reduction (rather than by making after-tax contributions), any contributions by a participant in the Component Benefit shall be by salary reduction rather than by after-tax contributions unless the participant otherwise elects in accordance with the provisions of the applicable summary plan description.
- (c) The reasonable expenses incident to the administration and operation of each Component Benefit, including the compensation of the Trustee, attorneys, advisors, actuaries, fiduciaries, and such other persons providing technical and clerical assistance as may be required, shall be paid out of

the Trust unless the Company notifies the Committee that the Company or the Employers have paid or will pay such expenses.

- (d) If any Employer makes a contribution to the Trust by a mistake of fact, the Trustee shall return such contribution to that Employer within one year after the payment of the contribution.
- (e) The assets of the Plan shall not include any of the general assets of the Employer that have not been contributed to the Trust, an insurance company or an HMO.

SECTION 6. AMENDMENT AND TERMINATION

6.01. Amendment or Termination.

It is the intention of GTE that the Plan and its Component Benefits will continue indefinitely. However, GTE reserves the right to amend, modify, suspend, revoke, or terminate the Plan or any Component Benefit, in whole or in part, at any time and without notice, which right it hereby delegates to the Company or any committee thereof. The Plan and any Component Benefit may be amended retroactively.

6.02. Amendment of Schedule A.

Pursuant to the Trust Agreement, the Company may amend the Plan by adding a Component Benefit to, or removing a Component Benefit from, Schedule A.

6.03. Effect of Amendment or Termination.

- (a) No amendment to or termination of the Plan or any Component Benefit shall cause or permit the funds of the Plan held in the Trust to be used for any purpose other than the defrayal of administrative expenses and payment to participants and beneficiaries of the benefits provided for under a Component Benefit, except as provided in subsections 3.03 and 5.02(c) hereof.
- (b) Upon termination of any Component Benefit, the Trustee shall use the funds of the Plan held in the Trust to pay benefits that participants and beneficiaries have become entitled to receive under the terms of that Component Benefit as of the date of termination, and to pay the administrative expenses incurred by the Plan and the Trust before and in connection with the termination, both in accordance with the written direction of the Committee.
- (c) Upon termination of the Plan, the Trustee shall use the funds of the Plan held in the Trust to pay benefits that participants and their designated beneficiaries have become entitled to receive under the terms of the Plan, and to pay the administrative expenses incurred by the Plan and the Trust before and in connection with the termination, both in accordance with the written direction of the Committee. The Trustee shall dispose of the Plan's remaining funds held in the Trust in accordance with the written direction of the Committee. Such direction shall require the funds to be disposed of for the sole benefit of participants in the Plan and their beneficiaries, except as provided in subsections 3.03 and 5.02(c) hereof.

SECTION 7. MISCELLANEOUS**7.01. Segregation of Trust Assets.**

The Trustee may, pursuant to the Trust Agreement, segregate part of the funds held in the Trust and hold such segregated funds in a separate trust. With respect to the separate trust, the Plan shall be construed to apply to such trust; any reference herein to "Trust" shall refer to the trust; any reference herein to "Company" shall refer to the employer whose contributions to the Trust are held in the separate trust; and any reference herein to "Committee" shall refer to such employer's committee appointed to administer the Plan with respect to the trust.

7.02. Governing Law.

- (a) The Plan shall be governed by and administered under the Employee Retirement Income Security Act of 1974, as amended from time to time, and, to the extent not preempted thereby, under the laws of the State of Connecticut.
- (b) Except as otherwise provided in a Component Benefit, the Component Benefits shall be governed by and administered under the Employee Retirement Income Security Act of 1974, as amended from time to time, and, to the extent not preempted thereby, under the laws of the State of Connecticut.

7.03. Agent for Service of Process.

Service of legal process involving the Plan may be delivered to the Committee at: One Stamford Forum, Stamford, CT 06904.

7.04. No Vested Rights.

To the maximum extent permitted by law, no person shall acquire any right, title, or interest in or to any portion of the Trust otherwise than by the actual payment or distribution of such portion under the provisions of the Plan or a Component Benefit, or acquire any right, title, or interest in or to any benefit referred to or provided for in the Plan or any Component Benefit otherwise than by actual payment of such benefit.

7.05. Information to be Furnished.

Any person eligible to receive benefits hereunder shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan or a Component Benefit. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient ground for delay in the payment of any benefits that may be due under the Plan or a Component Benefit until such information or proof is received by the Committee. If any person claiming benefits under the Plan or a Component Benefit makes a false statement that is material to such person's claim for benefits,

the Committee may offset against future payment any amount paid to such person to which such person was not entitled under the provisions of the Plan or a Component Benefit.

7.06. Non-Alienation.

Except to the extent provided in a Component Benefit, no participant, beneficiary, or any other person shall have any right or power, by draft, assignment, or otherwise, to assign, mortgage, pledge, or otherwise encumber in advance any interest in or portion of the Trust, or any benefit provided under a Component Benefit, or to give any order in advance upon the Trustee therefor; and every attempted draft, assignment, or other disposition thereof shall be void. Notwithstanding the foregoing, the Plan shall comply with Section 609(a) of ERISA and the regulations thereunder with respect to all Qualified Medical Child Support Orders received by the Plan on or after August 9, 1993, in accordance with such written procedures as shall be established by the Committee.

7.07. Spendthrift Provisions.

The Plan shall not be liable in any way, whether by process of law or otherwise, for the debts or other obligations of any participant, beneficiary, or other person. Except to the extent provided in a Component Benefit, benefits payable under a Component Benefit shall not be subject, in any manner, to anticipation, alienation, sale, transfer, or assignment by any person, and any attempt to anticipate, alienate, sell, transfer or assign such benefits shall be void.

7.08. Non-Guarantee.

Neither GTE, the Employer, nor any fiduciary shall be held or deemed in any manner to guarantee the Plan or a Component Benefit against loss or depreciation.

7.09. Employment Rights.

Neither the establishment nor the continuance of the Plan or of any Component Benefit(s) shall be construed as conferring any legal rights upon any employee of the Employer or any other person for a continuation of employment, nor shall such establishment or continuance interfere with the right of the Employer to discharge any employee or any other person or to deal with him without regard to the existence of the Plan or the Component Benefit.

7.10. Incapacity.

If the Plan Administrator determines that any person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Plan Administrator to have incurred expenses for such person. Payments made pursuant to this Section shall completely discharge the Plan, the Plan Administrator, the Company and the Employer of any liability to the Participant or other person arising under the Plan.

SECTION 8. STATUTORY CONTINUATION COVERAGE**8.01. General Rule.**

If a "qualified beneficiary" described in subsection 8.02 hereof becomes ineligible for coverage under the Plan by reason of a "qualifying event" described in subsection 8.03 hereof, such qualified beneficiary shall be eligible to elect, within the election period described in subsection 8.05 hereof, the continued coverage described in subsection 8.06 hereof. For purposes of this Section 8, Employee shall be as defined in Section 2.01 of GTE CHOICES, except that its definition shall include retired Employees.

8.02. Qualified Beneficiary.

For purposes of this Section 8, the term "qualified beneficiary" shall mean the following:

- (a) In the case of a qualifying event described in paragraph (a) or (c) of subsection 8.03, any individual who, on the day before such qualifying event, was covered under the Plan as the spouse or dependent child of the Employee (other than an Employee who was a nonresident alien with no United-States-source earned income during the period in which he was covered under the Plan by reason of his employment) with respect to whom the qualifying event occurred;
- (b) In the case of a qualifying event described in paragraph (b) of subsection 8.03, any Employee (other than an Employee who was a nonresident alien with no United-States-source earned income during the period in which he was covered under the Plan by reason of his employment) with respect to whom the qualifying event occurred, and any individual who, on the day before such qualifying event, was covered under the Plan as the spouse or dependent child of such Employee;
- (c) In the case of a qualifying event described in paragraph (d) of subsection 8.03 hereof, any individual who, on the day before such qualifying event, was covered under the Plan as the dependent child of an Employee (other than an Employee who was a nonresident alien with no United-States-source earned income during the period in which he was covered under the Plan by reason of his employment).

8.03. Qualifying Events.

For purposes of this Section 8, the term "qualifying event" shall mean, with respect to any Employee, any of the following events that would result in the loss of coverage of a qualified beneficiary:

- (a) The death of an Employee;
- (b) The termination of an Employee's employment with the Employer (other than a termination by reason of such Employee's gross misconduct) or a reduction in an Employee's hours of employment with the Employer;
- (c) The divorce or legal separation of the Employee from the Employee's spouse; or
- (d) An Employee's dependent child's ceasing to qualify as a Dependent under the Plan;

except, that Section 8.03(b) above shall not constitute a qualifying event with respect to retiree medical coverage.

8.04. Notice Provisions.

Notice shall be provided, in accordance with regulations prescribed by the Secretary of the Treasury, in the following circumstances:

- (a) At the time of an Employee's commencement of participation in the Plan pursuant to subsection 3.01 hereof, the Plan Administrator shall provide written notice to such Employee and the spouse (if any) of such Employee of the rights provided under this Section 8.
- (b) The Employer of an Employee shall notify the Plan Administrator, within 30 days after the date of the qualifying event, that a qualifying event described in paragraph (a) or (b) of subsection 8.03 hereof has occurred with respect to such Employee.
- (c) Each qualified beneficiary with respect to whom a qualifying event described in paragraph (c) or (d) of subsection 8.03 hereof occurs shall be responsible for notifying the Plan Administrator in writing, within 60 days after the date of the qualifying event, that such qualifying event has occurred. If the qualified beneficiary does not send the notice described in this paragraph (c) to the Plan Administrator within 60 days after the later of the date of the qualifying event or the date that the qualified beneficiary loses coverage on account of the qualifying event, the qualified beneficiary shall not be eligible to elect coverage under this Section 8.
- (d) Each qualified beneficiary who is determined to have been disabled for purposes of the Social Security Act at the time a qualifying event described in paragraph (b) of subsection 8.03 hereof occurs shall be responsible for notifying the Plan Administrator in writing, within 60 days after the date of the disability determination, that the disability determination has been made, and shall be responsible for notifying the Plan Administrator in writing, within 30 days after the date of any final determination that the qualified beneficiary is no longer disabled for purposes of the Social Security Act, that the final determination has been made.

- (e) To the extent required by subparagraphs (1), (2), and (3), below, the Plan Administrator shall notify any qualified beneficiary with respect to whom a qualifying event has occurred of such qualified beneficiary's rights under this Section 8:
- (1) In the case of a qualifying event described in paragraph (a) or (b) of subsection 8.03 hereof, the Plan Administrator shall give such notice within 14 days of the date on which the Employer notifies the Plan Administrator of the qualifying event pursuant to paragraph (b) of this subsection 8.04;
 - (2) In the case of a qualifying event described in paragraph (c) or (d) of subsection 8.03 hereof with respect to which the Employee or qualified beneficiary has notified the Plan Administrator pursuant to paragraph (c) of this subsection 8.04, the Plan Administrator shall give such notice within 14 days of the date on which the Plan Administrator receives the notice described in paragraph (c) of this subsection 8.04; and
 - (3) Any notice given pursuant to subparagraph (1) or (2), above, to a qualified beneficiary who is the spouse of an Employee shall be treated as notice to all other qualified beneficiaries residing with such spouse at the time of such notice.

8.05. Election Provisions.

A qualified beneficiary who becomes eligible for coverage pursuant to this Section 8 shall not be covered under this Section 8 unless such qualified beneficiary files a coverage election with the Plan Administrator in the manner prescribed by the Plan Administrator.

- (a) **Time of Election.** A qualified beneficiary's written coverage election must be filed with the Plan Administrator during the period that:
- (1) Begins not later than the date on which the qualified beneficiary loses coverage under the Plan by reason of a qualifying event described in subsection 8.03, above; and
 - (2) Ends not earlier than 60 days after the later of:
 - (A) the date described in paragraph (1), above; or
 - (B) the date on which the Plan Administrator provides the notice described in paragraph (e) of subsection 8.04 hereof.
- (b) **Manner of Election.** Each qualified beneficiary may make a separate election with respect to the coverage provided under this Section 8. However, a qualified beneficiary who is an Employee or who is the spouse of an Employee may make a binding election to provide another qualified beneficiary with coverage under this Section 8. An election on behalf of a minor child may be made by the child's parent.

or legal guardian. An election on behalf of a qualified beneficiary who is incapacitated or who dies may be made by the spouse or legal representative of the qualified beneficiary, or by his estate.

- (c) Waiver of Coverage. A qualified beneficiary who waives coverage under this Section 8 may revoke the waiver at any time before the end of the election period described above, provided that coverage under this Section 8 shall be effective from the date of the revocation and shall not apply retroactively to the period between the date of the qualifying event and the date of the revocation.

8.06. Coverage Provisions.

The coverage provided pursuant to this Section 8 shall be as follows:

- (a) Type of Coverage. The coverage shall consist of coverage that, as of the time the coverage is being provided, is identical with the coverage provided to similarly situated beneficiaries under the Plan with respect to whom a qualifying event has not occurred. If coverage under the Plan is modified for any group of similarly situated beneficiaries, the coverage under this Section 8 shall be modified in the same manner for the corresponding group of qualified beneficiaries covered pursuant to this Section 8.
- (b) Period of Coverage. The coverage shall extend for a period beginning on the date of the first qualifying event to occur with respect to a qualified beneficiary covered pursuant to this Section 8 (except as provided in subsection 8.05(c), above, with respect to the revocation of a waiver of coverage) and ending not earlier than the earliest of the following dates that is applicable (except as provided in paragraph (c), below, with respect to Medicare entitlement):
- (1) in the case of a qualifying event described in paragraph (b) of subsection 8.03 hereof, whichever of the following dates is applicable:
- (A) if a second qualifying event occurs before the end of the period described in clause (B) or (C), below, or in subparagraph (2), below, whichever is applicable, the date that is 36 months after the date of the first qualifying event (provided that this 36-month period of coverage shall apply only to an individual who is a qualified beneficiary with respect to both qualifying events); or
- (B) in the case of a qualified beneficiary who is determined to have been disabled for purposes of the Social Security Act at the time a qualifying event described in paragraph (b) of subsection 8.03 hereof occurs, and who provides the Plan Administrator with notice of the disability determination pursuant to subsection 8.04(d) hereof within 18 months after the date of the qualifying event, the date that is 29 months after the date of the qualifying event; or

- (C) in all other cases, the date that is 18 months after the date of the qualifying event;
- (2) in the case of a qualified beneficiary who is determined to have been disabled for purposes of the Social Security Act at the time a qualifying event described in paragraph (b) of subsection 8.04 hereof occurs, and who is subsequently determined to have ceased to be disabled for purposes of the Social Security Act, the later of:
 - (A) the date that is 18 months after the date of the qualifying event; or
 - (B) the first day of the month that begins more than 30 days after the date of a final determination that the qualified beneficiary is no longer disabled;
- (3) in the case of a qualifying event not described in paragraph (b) of subsection 8.03 hereof, the date that is 36 months after the date of the qualifying event;
- (4) in the case of any qualifying event, the date on which the Employer ceases to maintain any group health plans;
- (5) in the case of any qualifying event, the date on which coverage ceases by reason of the qualified beneficiary's failure to make timely payment of the premium required under subsection 8.07 hereof; or
- (6) in the case of any qualifying event, the date of the first of the following events to occur after the date of the election described in subsection 8.05 hereof:
 - (A) the qualified beneficiary first becomes covered under any other group health plan (as an employee or otherwise), provided that this clause shall apply only if the other group health plan does not contain any exclusion or limitation with respect to any pre-existing condition of such qualified beneficiary; or
 - (B) the qualified beneficiary first becomes entitled to benefits under Medicare.
- (c) Extension of Coverage Following Medicare Entitlement. If an Employee becomes entitled to benefits under Medicare, and a qualifying event described in subsection 8.03(b) hereof (relating to a termination of employment or reduction in hours) occurs with respect to the Employee on or after the date of his Medicare entitlement, the period of coverage provided under subsection 8.06(b)(1) or (2) hereof with respect to the qualifying event described in subsection 8.03(b) hereof shall not terminate on the date of the Employee's Medicare entitlement. The extended

coverage described in this paragraph (c) shall not apply to the Employee who becomes entitled to benefits under Medicare, but shall apply to any other individual who is a qualified beneficiary with respect to the qualifying event described in subsection 8.03(b) hereof.

8.07. Premium Provisions.

A qualified beneficiary who becomes eligible for coverage pursuant to this Section 8 shall not be covered under this Section 8, or shall not continue to be covered under this Section 8, unless such qualified beneficiary pays premiums in accordance with the following rules:

- (a) **Amount of Premium.** Except as provided in the following sentence, the premium for any period of coverage under this Section 8 shall be an amount prescribed by the Plan Administrator that does not exceed 102 percent of the "applicable premium" for such period. In the case of a qualified beneficiary described in subsection 8.05(b)(1)(B) hereof whose coverage has been extended beyond 18 months because he is disabled, the premium for any period of coverage under this Section 8 that follows the 18th month of such coverage shall be an amount prescribed by the Plan Administrator that does not exceed 150 percent of the "applicable premium" for such period. The Plan Administrator shall determine the "applicable premium" as follows:

- (1) Except as provided in subparagraph (2), below, the applicable premium with respect to any period of coverage for a qualified beneficiary under this Section 8 shall be equal to a reasonable estimate of the cost to the Plan of providing coverage for such period for similarly situated beneficiaries with respect to whom a qualifying event has not occurred, determined
- (A) on an actuarial basis;
 - (B) taking into account such factors as the Secretary of the Treasury may prescribe in regulations; and
 - (C) without regard to whether such cost is paid by the Employer or by an Employee.
- (2) Except as provided in subparagraph (3), below, if the Plan Administrator elects to have this subparagraph (2) apply, the "applicable premium" with respect to any period of coverage for a qualified beneficiary under this Section 8 shall be equal to:
- (A) the cost to the Plan of providing coverage for similarly situated beneficiaries with respect to whom a qualifying event has not occurred, determined for the same period occurring during the preceding determination period (as defined in subparagraph (4) below), adjusted by
 - (B) the percentage increase or decrease in the implicit price

deflator of the gross national product (calculated by the Department of Commerce and published in the Survey of Current Business) for the 12-month period ending on the last day of the sixth month of such preceding determination period.

- (3) The Plan Administrator shall not calculate the applicable premium under subparagraph (2), above, in any case in which there is any significant difference (determined at the time the applicable premium is calculated) in coverage under the Plan, or in employees covered by the Plan, between the determination period for which the applicable premium is calculated and the preceding determination period.
 - (4) The Plan Administrator shall calculate the applicable premium for a period of 12 months (the "determination period") established by the Plan Administrator and applied consistently from year to year. The Plan Administrator shall calculate the applicable premium before the beginning of such determination period.
- (b) Payment of Premiums. A qualified beneficiary who has elected coverage pursuant to this Section 8 shall pay the premium prescribed by this subsection 8.06 to the Plan Administrator in accordance with the following rules:
- (1) Initial Premium. If a qualified beneficiary has elected coverage under this Section 8 after the date of a qualifying event, the qualified beneficiary shall pay, no later than 45 days after the date of such election, the premium for the period of coverage from the date of the qualifying event to the last day of the month in which the election is made, provided that the qualified beneficiary shall not be required to pay the premium with respect to a period during which the qualified beneficiary had waived coverage under this Section 8.
 - (2) Subsequent Premiums. The premium for subsequent periods of coverage under this Section 8 shall be due at the beginning of each month during which such coverage remains in effect, provided that a premium shall be deemed to be timely if it is paid no later than 30 days after the date on which it became due pursuant to this subparagraph (2).
- 8.08. Other Rules.
- (a) Insurability. Coverage under this Section 8 shall not be conditioned on evidence of insurability and shall not discriminate on the basis of lack of insurability.
 - (b) Applicability of Plan Provisions. A qualified beneficiary who elects to receive continued coverage under this Section 8 shall be subject to the provisions of the Plan that applied to such qualified beneficiary prior to the qualifying event.

SCHEDULE A

The Plan for Group Insurance - Medical and Dental Component Benefits as provided in:

- **GTE CHOICES**
- **GTE DIRECTFLEX**
- **All medical and dental benefit plans comprising the Contel Employees' Benefit Trust, as merged into the GTE Plan for Group Insurance effective January 1, 1992.**
- **The attached Schedule 1 of Summary Plan Descriptions (excluding Component Benefits for any group of participants in a collectively bargained VEBA).**
- **The attached Schedule 2 of Summary Plan Descriptions for medical and dental benefits provided to companies divested by GTE.**

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**SCHEDULE 2 TO THE PLAN FOR GROUP INSURANCE
SUMMARY PLAN DESCRIPTIONS OF MEDICAL AND DENTAL
BENEFITS FOR THE FOLLOWING GTE DIVESTED COMPANIES:**

GTESS-CSC-EL Paso (Hourly)
GTESS-CSC-San Carlos (Union)
GTESS-CSC-Albuquerque (Union)
GTE Sprint Communications Corporation
GTE Products Corporation - Commonwealth Manufacturing
GTESS - Upstate New York
GTESS - Gibson Electric
GTESS - Comp-Acct
GTE Export Corporation
GTESS - W.B. Driver (OLD)
GTESS - W.B. Driver
GTE Products Corporation - Wesgo Div.
GTESS - W.B. Driver (Old Salary)
GTESS - W.M. Chace
GTE Electrical Equipment (Salary)
GTE Consumer Communications Products
GTE Electrical Products - Walmet Division
GTE Support Services Incorporated
GTE Shareholder Services Incorporated
GTE Electrical Products - American Mine & Tool Division
GTE Products Corporation - Asheville
GTESS - CSC - (Union)
GTESS - CSC - (Non-union)
GTESS - CSC - Huntsville, AL
GTE Communication Systems Corporation
GTE Products Corporation - Hourly Pension Plan

ATTACHMENT III

TRUST AGREEMENT

TRUST AGREEMENT

Between

GTE SERVICE CORPORATION

and

STATE STREET BANK AND TRUST COMPANY

THIS TRUST AGREEMENT, dated and effective as of September 30, 1991, entered into by GTE SERVICE CORPORATION, a New York corporation (hereinafter called the "Company"), and STATE STREET BANK AND TRUST COMPANY, a National banking association organized and existing under the laws of the United States (hereinafter call the "Trustee").

WITNESSETH THAT

WHEREAS, GTE Corporation, a New York corporation and the parent of the Company, has adopted an employee health benefit plan (such plan as amended to date and as it may be amended hereafter is hereinafter called the "Plan") for the benefit of certain employees (whose benefits are subject to collective bargaining) of corporations in its controlled group of corporations and certain other affiliated employers as provided in the Plan, and a copy of the Plan has been delivered to the Trustee; and

WHEREAS, the Company is the administrator of the Plan and is authorized to enter into this Agreement with the Trustee as a funding medium for the Plan; and

WHEREAS, the Company intends that the trust created by this Trust Agreement shall constitute a part of the Plan, that together with such Plan, the trust shall qualify as a voluntary employees' beneficiary association ("VEBA") under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended from time to time (hereinafter called the "Code"), shall be exempt from Federal income

tax under Section 501(a) of the Code, and shall satisfy the requirements of the Employee Retirement Income Security Act of 1974, as amended from time to time (hereinafter called "ERISA").

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter stated, the Company and the Trustee do hereby declare and agree, each with the other, as follows:

SECTION 1. The Company hereby establishes with the Trustee a trust to fund and pay the benefits and other liabilities of the Plan. The trust property shall comprise all sums of money, securities and other property now held by the Trustee for the purposes of the trust and such other sums of money, securities and other property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee for such purposes together with the earnings and profits thereon. All such money, securities and other property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments which at the time of reference shall have been made by the Trustee in accordance with this Agreement, are hereinafter called the "Trust Fund." The Trust Fund shall be held by the Trustee in trust and dealt with in accordance with the provisions of this Agreement.

SECTION 2. It shall be the duty of the Trustee to (a) hold, invest and reinvest the Trust Fund as provided herein; and (b) make payments or transfers from or within the Trust Fund on the order of the Company or the Company's Employee Benefits Committee (hereinafter

called the "Committee") or on the order of any agent designated in writing by the Company or the Committee. The Trustee shall not be responsible for (i) the propriety of such payments or transfers or (ii) the administration of the Plan, or (iii) for any property not paid or delivered to the Trustee, and the Trustee shall be under no duty to enforce payment of any contributions to the Plan.

SECTION 3. Subject to the provisions of Section 9 hereof and ERISA, the Trustee shall invest and reinvest the Trust Fund and keep the Trust Fund invested, without distinction between principal and income, in any and all common stocks, preferred stocks, bonds, debentures, mortgages on real or personal property wherever situated, equipment trust certificates, certificates of deposit or demand or time deposits (including, to the extent permitted by applicable federal, any such certificates of deposit or demand or time deposits with the Trustee or an affiliate of the Trustee which bear a reasonable rate of interest), notes or other evidences of indebtedness, or other securities, and in any other property or joint or other part interest in property (including, without limitation, part interests in bonds and mortgages or notes and mortgages), real or personal, foreign (including non-United States) or domestic and wherever situated and of any kind, class or character, which the Trustee may in its discretion deem suitable for the Trust Fund; provided that, except as authorized by the Secretary of Labor by regulation, the indicia of ownership of all property held in the Trust Fund shall be retained within the jurisdiction of the District Courts of the United States. Such investment and reinvestment shall

not be restricted to property authorized for investment by trustees under any present or future law of any State.

SECTION 4. Subject to the provisions of Section 9 hereof and ERISA, the Trustee is authorized and empowered in its discretion, but not by way of limitation:

(a) to sell, exchange, convey, transfer or otherwise dispose of any property, real or personal, at any time held by it, by private contract or at public auction, upon such conditions, at such prices and in such manner as the Trustee shall deem advisable, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;

(b) to vote upon any stocks, bonds or other securities and to give general or special proxies or powers of attorney with or without power of substitution, to sell or exercise any conversion privileges, subscription rights or other options and to make any payments incidental thereto; to consent to or otherwise participate in corporate reorganizations, mergers, consolidations or other changes affecting corporate securities and to delegate discretionary powers and to pay any assessments or charges in connection therewith; and generally to exercise any of the powers of an owner with respect to stocks, bonds, securities or other property held in the Trust Fund;

(c) to hold property in the Trust Fund in its own name or in the name of one or more of its nominees or one or more nominees of any system for the central handling of securities and to hold any investment in bearer form, but the books and records of the Trustee

shall at all times show that all such investments are part of the Trust Fund;

(d) to manage, administer, operate, lease for any number of years, regardless of any restrictions on leases made by fiduciaries, develop, improve, repair, alter, demolish, mortgage, pledge, grant options with respect to or otherwise deal with any real property or interest therein at any time held by it;

(e) to employ suitable agents, auditors and legal counsel or other advisers, and to pay their reasonable expenses and compensation;

(f) to compromise, compound, settle or arbitrate any claim, debt or obligation due to or from it as Trustee and to reduce the rate of interest on, extend or otherwise modify, or to foreclose upon default or otherwise enforce any such obligation; to bid in property on foreclosure or to take a deed in lieu of foreclosure with or without paying consideration therefor and in connection therewith to release the obligation on the bond secured by the mortgage; provided, however, that the Trustee shall not be required to take any action under this paragraph unless it shall have been indemnified by the Company to its reasonable satisfaction against liability or expenses it might incur therefrom;

(g) to the extent permitted by applicable federal law, to commingle part or all of the Trust Fund in or with one or more group trusts, common or collective trust funds or pooled investment funds, whether now existing or hereafter created, including any such funds maintained by the Trustee or an affiliate of the Trustee, in which the collective investment of funds of a VEBA is permitted under the

code and other applicable federal law; provided, however, that the Trustee's books and records shall at all times show the equitable share of the Trust Fund in any such common fund;

(h) to borrow money in such amounts and upon such terms and conditions as shall be deemed advisable or necessary to carry out the purposes of the Trust and to pledge any securities or other property of the Trust for the repayment of any such loan; provided, however, that no such loan or advance shall be made to the Trust by the Trustee, other than temporary advances to the Trust on a cash or overdraft basis on which no interest is payable; and

(i) to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or proper to carry out the powers herein granted.

SECTION 5. All reasonable expenses of administration and management of the Plan and the Trust Fund, including all administrative expenses incurred by the Trustee in the performance of its duties (including fees for legal services rendered to the Trustee, such compensation to the Trustee as may be agreed upon from time to time between the Company and the Trustee and evidenced by a writing signed by an officer of the Company, and all other proper charges and disbursements of the Trustee), brokerage costs and transfer taxes incurred in connection with the investment and reinvestment of the Trust Fund, all expenses incurred in connection with the acquisition, disposition or holding of real or personal property, any interest therein or mortgage thereon, and all income

taxes or other taxes of any kind that may be levied or assessed under existing or future laws upon or in respect of the Trust Fund, shall be paid from the Trust Fund, except to the extent paid by the Company. Notwithstanding the preceding provisions of this Section 5, (a) the administrative expenses incurred by the Trustee in the performance of its duties shall be paid from the Trust Fund only if and to the extent that the Trustee has submitted to the Company and the Company has reviewed and approved a detailed statement of such fees and other expenses, and (b) the fees and expenses of any investment manager shall be paid from the Trust Fund only if and to the extent that the Company has reviewed and approved such fees and other expenses, and in either case the Company has directed the Trustee to withdraw monies from the Trust Fund in an amount sufficient to cover such fees and other expenses. All such expenses, until paid, shall constitute a charge upon the Trust Fund and if not paid by the Company within 90 days after becoming due may be withdrawn from the Trust Fund.

SECTION 6. The Trustee shall keep full accounts of all of its receipts and disbursements hereunder. The Trustee's financial statements, books and records with respect to the Trust Fund shall be open to inspection by the Company or the Committee or their agents at all reasonable times during the business hours of the Trustee and may be audited by independent public accountants engaged by the Company or the Committee. Within 90 days after the close of each year or of any date of termination of the duties of the Trustee, the Trustee shall mail to the Company an account or accounts of its transactions

as trustee hereunder. If within 90 days after receipt of such account or accounts the Company has not delivered to the Trustee any written notice of objection to such account or accounts, such account or accounts shall become an account or accounts stated between the Trustee and the Company and the Trustee shall be released and discharged from all liability with respect to the transactions fully and fairly shown in such account or accounts as if such account or accounts had been settled and allowed by a judgment or decree of a court of competent jurisdiction in a proceeding in which the Trustee and the Company were the sole parties. The Trustee or the Company shall have the right to apply to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as herein provided. In any such action or proceeding it shall be necessary to join as parties only the Trustee and the Company (although the Trustee or the Company may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

SECTION 7. The Trustee may resign at any time upon 60 days notice in writing to the Company. The Trustee may be removed by the Company, pursuant to a resolution of the Company's Board of Directors, at any time upon 60 days notice in writing to the Trustee. Within 60 days after such notice of such resignation or removal of the Trustee, the Company, pursuant to a resolution of its Board of Directors, shall appoint a successor trustee. Any successor trustee shall have the same powers and duties as those conferred upon the Trustee hereunder, and, subject to receipt by the Trustee of written

acceptance of such appointment by the successor trustee, the Trustee shall assign, transfer and pay over to such successor trustee the money, securities and other property then constituting the Trust Fund. If within sixty days of the delivery of the Trustee's notice of resignation a successor Trustee shall not have been appointed, the Trustee may apply to any court of competent jurisdiction for the appointment of a successor trustee.

SECTION 8. The Trustee shall be fully protected in relying upon the authenticity of:

(a) copies of resolutions of the Board of Directors of the Company or the Committee certified, as the case may be, by the Company's Secretary or Assistant Secretary under its corporate seal or by the Secretary of the Committee;

(b) written communications from the Company signed by one or more of the Company's duly authorized officers, employees or agents;
or

(c) written communications from the Committee signed by two or more members of the Committee or its duly authorized agent.

The authorization of the Company's officers, employees and agents and the membership of the Committee shall be evidenced by a resolution of the Board of Directors of the Company. The Company or the Committee from time to time shall furnish or cause to be furnished to the Trustee a certificate of the Secretary or an Assistant Secretary of the Company or Committee, as the case may be, as to the names and signatures of all persons designated as members

of any committee, and of any agent or agents or other person or persons, authorized to issue orders, requests, instructions and objections to the Trustee pursuant to the provisions of this Agreement. All orders, requests, instructions and objections of any of such agents, persons or committees authorized to act in accordance with the provisions of this Agreement shall be in writing, unless such grant of authority specifically authorizes the order, request, instruction or objection to be given orally, and the Trustee shall be fully protected in acting in accordance therewith. The Trustee shall have the right to assume in the absence of written notice to the contrary, that no event constituting a change in membership or authority of any such committee or terminating the authority of any such agent or person to act hereunder or in connection with this Agreement has occurred.

To the extent permitted by applicable law, the Company shall indemnify and hold harmless the Trustee for any liability or expense, including, without limitation, reasonable attorney's fees, incurred by the Trustee solely by reason of any act done or omitted to be done by the Trustee in compliance with any written order or direction of the Company, the Committee or any Investment Manager.

SECTION 9. The Company shall from time to time specify by written notice to the Trustee whether the investment and reinvestment of the Trust Fund (or any portion thereof), in the manner provided in Section 3 hereof, shall be managed by the Trustee, or shall be managed by one or more investment managers (hereinafter called an "Investment Manager") appointed by the Company, or whether both the

Trustee and one or more Investment Managers are to participate in investment management and if so how the investment responsibility is to be divided with respect to assets, classes of assets or separate investment funds specified and defined in such notice. Any such Investment Manager shall be (a) registered as an investment adviser under the Investment Advisers Act of 1940, (b) a bank as defined in the Investment Advisers Act of 1940, or (c) an insurance company qualified to manage, acquire or dispose of any asset in the Trust Fund under the laws of more than one State. If the Trust Fund is to be managed in whole or in part by an Investment Manager, the Trustee shall be given copies of the instructions appointing the Investment Manager and evidencing its acceptance of such appointment and acknowledgment that it is a fiduciary of the Plan and, where required, a certificate evidencing the Investment Manager's registration under the Investment Advisers Act of 1940. The Trustee may continue to rely upon such instruments and certificate as evidence of the Investment Manager's authority to manage, acquire and dispose of assets of the Trust Fund until otherwise notified in writing by the Company. The Trustee shall not be a party to any agreement between the Company and the Investment Manager, and the Trustee shall not be responsible for the terms and conditions of any such agreement.

The Investment Manager shall furnish the Trustee from time to time with the names and signature of those persons who shall be authorized to instruct the Trustee on its behalf hereunder. The Trustee shall have the right to request that all instructions of an Investment Manager pursuant to this Agreement be in writing and shall

assume no liability hereunder for failure to act pursuant to such instructions unless and until they are received in form satisfactory to the Trustee.

All transactions for the Trust Fund related to the acquisition or disposal of assets managed by an Investment Manager, as well as all purchases and sales of such assets, shall be made upon such terms and conditions and from or through such principals and agents, as the Investment Manager shall determine. No such transactions shall be executed through the facilities of the Trustee except in those instances where the Trustee shall make available its facilities solely for the purposes of temporary investment of cash reserves.

The Investment Manager shall have exclusive authority to manage the assets allocated to it by the Company. The Trustee shall be under no duty to review any investment acquired, held or disposed of by an Investment Manager, and it is contemplated by the parties hereto that the officers and employees whom the Trustee will assign to perform the Trustee's functions with respect to assets under management by an Investment Manager will not have expert knowledge of investment management.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker or dealer. Written notification of the issuance of each such order shall be given to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed to the Trustee by the broker or dealer. Such notification shall be authority for the Trustee to pay for securities purchased against receipt thereof and

to deliver securities sold against payment therefor, as the case may be, in accordance with standard industry practices.

If an Investment Manager resigns or is removed by the Company, the Trustee upon receipt of notice of such resignation or removal shall manage the investment of the Trust Fund or the part thereof previously under the management of such Investment Manager until it shall be duly notified of the appointment of another Investment Manager; provided that the Trustee shall have a reasonable period of time in which to notify the Company that it rejects the management of any or all of the assets devolving upon it in this way. Thereupon the Trustee shall be relieved ab initio of any responsibility for the management of the rejected assets and the Company shall appoint another Investment Manager for the management of such assets. For this purpose a reasonable period of time shall not exceed forty-eight hours after the receipt of notice by the Trustee.

SECTION 10. With the consent of the Company and the Trustee, any other employer that is an affiliate of GTE Corporation may join in this Agreement as an "Associate" by filing with the Company and the Trustee a duly executed instrument in the form annexed hereto as Exhibit A. Employers listed in Exhibit B annexed hereto shall be deemed Associates hereunder without further action. The contributions which may be made by each Associate, and the earnings and profits thereon, shall be held by the Trustee as a part of the Trust Fund unless segregated in a separate trust as provided in Section 12 hereof.

SECTION 11. Each Associate appoints the Company and the Committee as its agents to exercise on its behalf all of the respective powers and authority conferred upon the Company and the Committee by this Trust Agreement, including, without limitation, the power to amend or terminate this Trust Agreement. The authority of the Company and the Committee to act as agents of any Associate shall terminate only if the part of the Trust Fund held under each plan of such Associate shall be segregated in a separate trust as provided in Section 12 hereof.

SECTION 12. At the request of any Associate the Company shall, and on its own initiative the Company may, direct the Trustee to segregate the part of the Trust Fund held under each plan of such Associate, specifying both the amount and the particular assets of the Trust Fund to be segregated. The Trustee shall follow such directions of the Company, and the part of the Trust Fund so segregated shall thereafter be held under a separate trust similar to that hereby established; except that with respect to such separate trust, this Trust Agreement shall be construed as if such Associate had been named as the Company and all powers and authority conferred upon the Company and the Committee shall devolve upon such Associate and a similar committee appointed by such Associate.

SECTION 13. The Company reserves the right at any time and from time to time to amend or terminate, in whole or in part, any or all of the provisions of this Trust Agreement (and the Trust created hereby) pursuant to a resolution of its Board of Directors; provided

that no such amendment which affects the rights, duties or responsibilities of the Trustee may be made without its consent in writing. In the event of the termination of the trust created hereby, the Trust Fund shall be disposed of by the Trustee in accordance with the written order of the Committee.

SECTION 14. Notwithstanding anything to the contrary contained in this Trust Agreement, or in any amendment thereto, it shall be impossible for any part of the Trust fund to inure to the benefit of any private shareholder or individual other than through the payment of benefits under the Plan and the payment of reasonable administrative expenses of the Plan; provided that, in the event of the termination of this Trust Agreement and the trust, and after satisfaction of all liabilities to existing Plan participants and beneficiaries, at the Company's option the Trust Fund shall either be (1) distributed as specified by the Company to the employees participating in the Plan with the amounts distributed to such employees determined pursuant to a collective bargaining agreement or on the basis of objective and reasonable standards that do not result in either unequal payments to similarly situated employees or in disproportionate payments to officers, shareholders or highly compensated employees, or (2) applied as specified by the Company to provide, either directly or through the purchase of insurance, life, sick, accident or other benefits within the meaning of Section 501(c)(d) of the Code and the regulations thereunder pursuant to criteria that do not provide for disproportionate benefits to

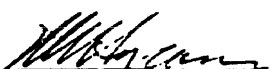
officers, shareholders or highly compensated employees. The Trust Fund shall not be distributed under any circumstances to the Company.

SECTION 15. The Trustee hereby accepts the trust established by this Trust Agreement on the terms and conditions herein set forth. The Trustee represents and covenants that it will comply with all applicable laws in the exercise of its rights and the performance of its obligations hereunder.

SECTION 16. This Trust Agreement shall be administered and construed according to the laws of the State of Connecticut, except as may otherwise be required by Federal law.

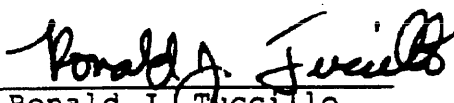
IN WITNESS WHEREOF, this Trust Agreement has been executed by GTE SERVICE CORPORATION, and its corporate seal affixed and attested, by its officers thereunto duly authorized, and by STATE STREET BANK AND TRUST COMPANY, and its corporate seal affixed and attested, by its officers thereunto duly authorized, as of the day and year first above written.

GTE SERVICE CORPORATION

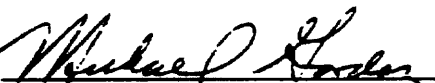
By: 
William L. Hyland
Vice President - Insurance

(Corporate Seal)

Attest:

By: 
Ronald J. Tuccillo
Assistant Secretary

STATE STREET BANK AND TRUST
COMPANY

By: 
Vice President

(Corporate Seal)

Attest:

By: 
Assistant Secretary

ATTACHMENT IV

VEBA TRUST TRUST AGREEMENT

VEBA TRUST

TRUST AGREEMENT

Between

GTE SERVICE CORPORATION

and

STATE STREET BANK AND TRUST COMPANY

THIS TRUST AGREEMENT, dated and effective as amended and restated as of January 1, 1991, entered into by GTE SERVICE CORPORATION, a New York corporation (hereinafter called the "Company"), and STATE STREET BANK AND TRUST COMPANY, a National banking association organized and existing under the laws of the United States (hereinafter call the "Trustee").

WITNESSETH THAT

WHEREAS, GTE Corporation, a New York corporation and the parent of the Company, has adopted an employee health benefit plan (such plan as amended to date and as it may be amended hereafter is hereinafter called the "Plan") for the benefit of certain employees of corporations in its controlled group of corporations and certain other affiliated employers as provided in the Plan, and a copy of the Plan has been delivered to the Trustee; and

WHEREAS, the Company is the administrator of the Plan and is authorized to enter into this Agreement with the Trustee as a funding medium for the Plan; and

WHEREAS, the Company intends that the trust created by this Trust Agreement shall constitute a part of the Plan, that together with such Plan, the trust shall qualify as a voluntary employees' beneficiary association ("VEBA") under Section 501(c)(9) of the Internal RevenueCode of 1986, as

amended from time to time (hereinafter called the "Code"), shall be exempt from Federal income tax under Section 501(a) of the Code, and shall satisfy the requirements of the Employee Retirement Income Security Act of 1974, as amended from time to time (hereinafter called "ERISA").

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter stated, the Company and the Trustee do hereby declare and agree, each with the other, as follows:

SECTION 1. The Company hereby establishes with the Trustee a trust to fund and pay the benefits and other liabilities of the Plan. The trust property shall comprise all sums of money, securities and other property now held by the Trustee for the purposes of the trust and such other sums of money, securities and other property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee for such purposes together with the earnings and profits thereon. All such money, securities and other property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments which at the time of reference shall have been made by the Trustee in accordance with this Agreement, are hereinafter called the "Trust Fund." The Trust Fund shall be held by the Trustee in trust and dealt with in accordance with the provisions of this Agreement.

SECTION 2. It shall be the duty of the Trustee to (a) hold, invest and reinvest the Trust Fund as provided herein; and (b) make payments or transfers from or within the Trust Fund on the order of the Company or the Company's Employee Benefits Committee (hereinafter called the "Committee") or on the order of any agent designated in writing by the Company or the Committee. The Trustee shall not be responsible for (i) the propriety of such payments or transfers or (ii) the administration of the Plan, or (iii) for any property not paid or delivered to the Trustee, and the Trustee shall be under no duty to enforce payment of any contributions to the Plan.

SECTION 3. Subject to the provisions of Section 9 hereof and ERISA, the Trustee shall invest and reinvest the Trust Fund and keep the Trust Fund invested, without distinction between principal and income, in any and all common stocks, preferred stocks, bonds, debentures, mortgages on real or personal property wherever situated, equipment trust certificates, certificates of deposit or demand or time deposits (including, to the extent permitted by applicable federal, any such certificates of deposit or demand or time deposits with the Trustee or an affiliate of the Trustee which bear a reasonable rate of interest), notes or other evidences of indebtedness, or other securities, and in any other property or joint or other part interest in property (including, without limitation, part interests in bonds and

mortgages or notes and mortgages), real or personal, foreign (including non-United States) or domestic and wherever situated and of any kind, class or character, which the Trustee may in its discretion deem suitable for the Trust Fund; provided that, except as authorized by the Secretary of Labor by regulation, the indicia of ownership of all property held in the Trust Fund shall be retained within the jurisdiction of the District Courts of the United States. Such investment and reinvestment shall not be restricted to property authorized for investment by trustees under any present or future law of any State.

SECTION 4. Subject to the provisions of Section 9 hereof and ERISA, the Trustee is authorized and empowered in its discretion, but not by way of limitation:

(a) to sell, exchange, convey, transfer or otherwise dispose of any property, real or personal, at any time held by it, by private contract or at public auction, upon such conditions, at such prices and in such manner as the Trustee shall deem advisable, and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition;

(b) to vote upon any stocks, bonds or other securities and to give general or special proxies or powers of attorney with or without power of substitution, to sell or exercise any conversion privileges, subscription rights or other

options and to make any payments incidental thereto; to consent to or otherwise participate in corporate reorganizations, mergers, consolidations or other changes affecting corporate securities and to delegate discretionary powers and to pay any assessments or charges in connection therewith; and generally to exercise any of the powers of an owner with respect to stocks, bonds, securities or other property held in the Trust Fund;

(c) to hold property in the Trust Fund in its own name or in the name of one or more of its nominees or one or more nominees of any system for the central handling of securities and to hold any investment in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust Fund;

(d) to manage, administer, operate, lease for any number of years, regardless of any restrictions on leases made by fiduciaries, develop, improve, repair, alter, demolish, mortgage, pledge, grant options with respect to or otherwise deal with any real property or interest therein at any time held by it;

(e) to employ suitable agents, auditors and legal counsel or other advisers, and to pay their reasonable expenses and compensation;

(f) to compromise, compound, settle or arbitrate any claim, debt or obligation due to or from it as Trustee and to reduce the rate of interest on, extend or otherwise modify, or to foreclose upon default or otherwise enforce any such

obligation; to bid in property on foreclosure or to take a deed in lieu of foreclosure with or without paying consideration therefor and in connection therewith to release the obligation on the bond secured by the mortgage; provided, however, that the Trustee shall not be required to take any action under this paragraph unless it shall have been indemnified by the Company to its reasonable satisfaction against liability or expenses it might incur therefrom;

(g) to the extent permitted by applicable federal law, to commingle part or all of the Trust Fund in or with one or more group trusts, common or collective trust funds or pooled investment funds, whether now existing or hereafter created, including any such funds maintained by the Trustee or an affiliate of the Trustee, in which the collective investment of funds of a VEBA is permitted under the code and other applicable federal law; provided, however, that the Trustee's books and records shall at all times show the equitable share of the Trust Fund in any such common fund;

(h) to borrow money in such amounts and upon such terms and conditions as shall be deemed advisable or necessary to carry out the purposes of the Trust and to pledge any securities or other property of the Trust for the repayment of any such loan; provided, however, that no such loan or advance shall be made to the Trust by the Trustee, other than temporary advances to the Trust on a cash or overdraft basis on which no interest is payable; and

(i) to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or proper to carry out the powers herein granted.

SECTION 5. All reasonable expenses of administration and management of the Plan and the Trust Fund, including all administrative expenses incurred by the Trustee in the performance of its duties (including fees for legal services rendered to the Trustee, such compensation to the Trustee as may be agreed upon from time to time between the Company and the Trustee and evidenced by a writing signed by an officer of the Company, and all other proper charges and disbursements of the Trustee), brokerage costs and transfer taxes incurred in connection with the investment and reinvestment of the Trust Fund, all expenses incurred in connection with the acquisition, disposition or holding of real or personal property, any interest therein or mortgage thereon, and all income taxes or other taxes of any kind that may be levied or assessed under existing or future laws upon or in respect of the Trust Fund, shall be paid from the Trust Fund, except to the extent paid by the Company.

Notwithstanding the preceding provisions of this Section 5, (a) the administrative expenses incurred by the Trustee in the performance of its duties shall be paid from the Trust Fund only if and to the extent that the Trustee has submitted to the Company and the Company has reviewed and approved a

detailed statement of such fees and other expenses, and (b) the fees and expenses of any investment manager shall be paid from the Trust Fund only if and to the extent that the Company has reviewed and approved such fees and other expenses, and in either case the Company has directed the Trustee to withdraw monies from the Trust Fund in an amount sufficient to cover such fees and other expenses. All such expenses, until paid, shall constitute a charge upon the Trust Fund and if not paid by the Company within 90 days after becoming due may be withdrawn from the Trust Fund.

SECTION 6. The Trustee shall keep full accounts of all of its receipts and disbursements hereunder. The Trustee's financial statements, books and records with respect to the Trust Fund shall be open to inspection by the Company or the Committee or their agents at all reasonable times during the business hours of the Trustee and may be audited by independent public accountants engaged by the Company or the Committee. Within 90 days after the close of each year or of any date of termination of the duties of the Trustee, the Trustee shall mail to the Company an account or accounts of its transactions as trustee hereunder. If within 90 days after receipt of such account or accounts the Company has not delivered to the Trustee any written notice of objection to such account or accounts, such account or accounts shall become an account or accounts stated between the Trustee and the Company and the Trustee shall be released and discharged

from all liability with respect to the transactions fully and fairly shown in such account or accounts as if such account or accounts had been settled and allowed by a judgment or decree of a court of competent jurisdiction in a proceeding in which the Trustee and the Company were the sole parties. The Trustee or the Company shall have the right to apply to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as herein provided. In any such action or proceeding it shall be necessary to join as parties only the Trustee and the Company (although the Trustee or the Company may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

SECTION 7. The Trustee may resign at any time upon 60 days notice in writing to the Company. The Trustee may be removed by the Company, pursuant to a resolution of the Company's Board of Directors, at any time upon 60 days notice in writing to the Trustee. Within 60 days after such notice of such resignation or removal of the Trustee, the Company, pursuant to a resolution of its Board of Directors, shall appoint a successor trustee. Any successor trustee shall have the same powers and duties as those conferred upon the Trustee hereunder, and, subject to receipt by the Trustee of written acceptance of such appointment by the successor trustee, the Trustee shall assign, transfer and pay over to such successor trustee the money, securities and other

property then constituting the Trust Fund. If within sixty days of the delivery of the Trustee's notice of resignation a successor Trustee shall not have been appointed, the Trustee may apply to any court of competent jurisdiction for the appointment of a successor trustee.

SECTION 8. The Trustee shall be fully protected in relying upon the authenticity of:

(a) copies of resolutions of the Board of Directors of the Company or the Committee certified, as the case may be, by the Company's Secretary or Assistant Secretary under its corporate seal or by the Secretary of the Committee;

(b) written communications from the Company signed by one or more of the Company's duly authorized officers, employees or agents; or

(c) written communications from the Committee signed by two or more members of the Committee or its duly authorized agent.

The authorization of the Company's officers, employees and agents and the membership of the Committee shall be evidenced by a resolution of the Board of Directors of the Company. The Company or the Committee from time to time shall furnish or cause to be furnished to the Trustee a certificate of the Secretary or an Assistant Secretary of the Company or Committee, as the case may be, as to the names and signatures of all persons designated as members of any

committee, and of any agent or agents or other person or persons, authorized to issue orders, requests, instructions and objections to the Trustee pursuant to the provisions of this Agreement. All orders, requests, instructions and objections of any of such agents, persons or committees authorized to act in accordance with the provisions of this Agreement shall be in writing, unless such grant of authority specifically authorizes the order, request, instruction or objection to be given orally, and the Trustee shall be fully protected in acting in accordance therewith. The Trustee

shall have the right to assume in the absence of written notice to the contrary, that no event constituting a change in membership or authority of any such committee or terminating the authority of any such agent or person to act hereunder or in connection with this Agreement has occurred.

To the extent permitted by applicable law, the Company shall indemnify and hold harmless the Trustee for any liability or expense, including, without limitation, reasonable attorney's fees, incurred by the Trustee solely by reason of any act done or omitted to be done by the Trustee in compliance with any written order or direction of the Company, the Committee or any Investment Manager.

SECTION 9. The Company shall from time to time specify by written notice to the Trustee whether the investment and reinvestment of the Trust Fund (or any portion thereof), in

the manner provided in Section 3 hereof, shall be managed by the Trustee, or shall be managed by one or more investment managers (hereinafter called an "Investment Manager") appointed by the Company, or whether both the Trustee and one or more Investment Managers are to participate in investment management and if so how the investment responsibility is to be divided with respect to assets, classes of assets or separate investment funds specified and defined in such notice. Any such Investment Manager shall be (a) registered as an investment adviser under the Investment Advisers Act of 1940, (b) a bank as defined in the Investment Advisers Act of 1940, or (c) an insurance company qualified to manage, acquire or dispose of any asset in the Trust Fund under the laws of more than one State. If the Trust Fund is to be managed in whole or in part by an Investment Manager, the Trustee shall be given copies of the instructions appointing the Investment Manager and evidencing its acceptance of such appointment and acknowledgment that it is a fiduciary of the Plan and, where required, a certificate evidencing the Investment Manager's registration under the Investment Advisers Act of 1940. The Trustee may continue to rely upon such instruments and certificate as evidence of the Investment Manager's authority to manage, acquire and dispose of assets of the Trust Fund until otherwise notified in writing by the Company. The Trustee shall not be a party to any agreement between the Company and the Investment Manager,

and the Trustee shall not be responsible for the terms and conditions of any such agreement.

The Investment Manager shall furnish the Trustee from time to time with the names and signature of those persons who shall be authorized to instruct the Trustee on its behalf hereunder. The Trustee shall have the right to request that all instructions of an Investment Manager pursuant to this Agreement be in writing and shall assume no liability hereunder for failure to act pursuant to such instructions unless and until they are received in form satisfactory to the Trustee.

All transactions for the Trust Fund related to the acquisition or disposal of assets managed by an Investment Manager, as well as all purchases and sales of such assets, shall be made upon such terms and conditions and from or through such principals and agents, as the Investment Manager shall determine. No such transactions shall be executed through the facilities of the Trustee except in those instances where the Trustee shall make available its facilities solely for the purposes of temporary investment of cash reserves.

The Investment Manager shall have exclusive authority to manage the assets allocated to it by the Company. The Trustee shall be under no duty to review any investment acquired, held or disposed of by an Investment Manager, and it is contemplated by the parties hereto that the officers and employees whom the Trustee will assign to perform the

Trustee's functions with respect to assets under management by an Investment Manager will not have expert knowledge of investment management.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker or dealer. Written notification of the issuance of each such order shall be given to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed to the Trustee by the broker or dealer. Such notification shall be authority for the Trustee to pay for securities purchased against receipt thereof and to deliver securities sold against payment therefor, as the case may be, in accordance with standard industry practices.

If an Investment Manager resigns or is removed by the Company, the Trustee upon receipt of notice of such resignation or removal shall manage the investment of the Trust Fund or the part thereof previously under the management of such Investment Manager until it shall be duly notified of the appointment of another Investment Manager; provided that the Trustee shall have a reasonable period of time in which to notify the Company that it rejects the management of any or all of the assets devolving upon it in this way. Thereupon the Trustee shall be relieved ab initio of any responsibility for the management of the rejected assets and the Company shall appoint another Investment Manager for the management of such assets. For this purpose

a reasonable period of time shall not exceed forty-eight hours after the receipt of notice by the Trustee.

SECTION 10. With the consent of the Company and the Trustee, any other employer that is an affiliate of GTE Corporation may join in this Agreement as an "Associate" by filing with the Company and the Trustee a duly executed instrument in the form annexed hereto as Exhibit A. Employers listed in Exhibit B annexed hereto shall be deemed Associates hereunder without further action. The contributions which may be made by each Associate, and the earnings and profits thereon, shall be held by the Trustee as a part of the Trust Fund unless segregated in a separate trust as provided in Section 12 hereof.

SECTION 11. Each Associate appoints the Company and the Committee as its agents to exercise on its behalf all of the respective powers and authority conferred upon the Company and the Committee by this Trust Agreement, including, without limitation, the power to amend or terminate this Trust Agreement. The authority of the Company and the Committee to act as agents of any Associate shall terminate only if the part of the Trust Fund held under each plan of such Associate shall be segregated in a separate trust as provided in Section 12 hereof.

SECTION 12. At the request of any Associate the Company shall, and on its own initiative the Company may, direct the Trustee to segregate the part of the Trust Fund held under each plan of such Associate, specifying both the amount and the particular assets of the Trust Fund to be segregated. The Trustee shall follow such directions of the Company, and the part of the Trust Fund so segregated shall thereafter be held under a separate trust similar to that hereby established; except that with respect to such separate trust, this Trust Agreement shall be construed as if such Associate had been named as the Company and all powers and authority conferred upon the Company and the Committee shall devolve upon such Associate and a similar committee appointed by such Associate.

SECTION 13. The Company reserves the right at any time and from time to time to amend or terminate, in whole or in part, any or all of the provisions of this Trust Agreement (and the Trust created hereby) pursuant to a resolution of its Board of Directors; provided that no such amendment which affects the rights, duties or responsibilities of the Trustee may be made without its consent in writing. In the event of the termination of the trust created hereby, the Trust Fund shall be disposed of by the Trustee in accordance with the written order of the Committee.

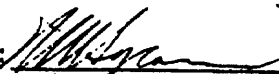
SECTION 14. Notwithstanding anything to the contrary contained in this Trust Agreement, or in any amendment thereto, it shall be impossible for any part of the Trust fund to inure to the benefit of any private shareholder or individual other than through the payment of benefits under the Plan and the payment of reasonable administrative expenses of the Plan; provided that, in the event of the termination of this Trust Agreement and the trust, and after satisfaction of all liabilities to existing Plan participants and beneficiaries, at the Company's option the Trust Fund shall either be (1) distributed as specified by the Company to the employees participating in the Plan with the amounts distributed to such employees determined pursuant to a collective bargaining agreement or on the basis of objective and reasonable standards that do not result in either unequal payments to similarly situated employees or in disproportionate payments to officers, shareholders or highly compensated employees, or (2) applied as specified by the Company to provide, either directly or through the purchase of insurance, life, sick, accident or other benefits within the meaning of Section 501(c)(d) of the Code and the regulations thereunder pursuant to criteria that do not provide for disproportionate benefits to officers, shareholders or highly compensated employees. The Trust Fund shall not be distributed under any circumstances to the Company.

SECTION 15. The Trustee hereby accepts the trust established by this Trust Agreement on the terms and conditions herein set forth. The Trustee represents and covenants that it will comply with all applicable laws in the exercise of its rights and the performance of its obligations hereunder.

SECTION 16. This Trust Agreement shall be administered and construed according to the laws of the State of Connecticut, except as may otherwise be required by Federal law.

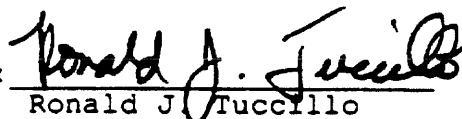
IN WITNESS WHEREOF, this Trust Agreement has been executed by GTE SERVICE CORPORATION, and its corporate seal affixed and attested, by its officers thereunto duly authorized, and by STATE STREET BANK AND TRUST COMPANY, and its corporate seal affixed and attested, by its officers thereunto duly authorized, as of the day and year first above written.

GTE SERVICE CORPORATION

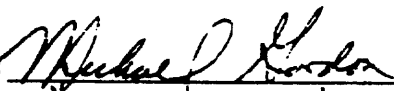
By: 
William L. Hyland
Vice President - Insurance

(Corporate Seal)

Attest:


By: 
Ronald J. Tuccillo
Assistant Secretary

STATE STREET BANK AND TRUST
COMPANY

By: 
Vice President

(Corporate Seal)

Attest:

By: 
Assistant Secretary

ATTACHMENT V

BARGAINED VEBA FUNDING HISTORY

GTE TELEPHONE OPERATIONS
Bargained VEBA Funding History

09-Aug-95
10:39 AM
EXHIBIT V

Bargaining Unit	State	1991 Contributions	1992 Contributions	1993 Contributions	Total Contributions	
Advanced Systems	IBEW 543	California	0	0	5,000	5,000
Kentucky	IBEW 453	Kentucky	0	50,000	50,000	100,000
West Virginia\Virginia	CWA 2276	West Virginia	0	0	5,000	5,000
West Virginia\Virginia	CWA 2276	Virginia	0	0	5,000	5,000
Contel of Virginia	CWA 2275	Virginia	0	0	75,000	75,000
Indiana - Contel	IBEW 723	Indiana	0	0	21,000	21,000
Indiana - Contel	IBEW 1393	Indiana	0	0	2,000	2,000
Indiana	USA/CID	Indiana	0	3,000	2,000	5,000
Missouri	CWA 6301,6373	Missouri	0	0	6,000	6,000
Contel of Midwest	CWA 6312,6311	Missouri	0	0	50,000	50,000
Illinois	IAM & AW	Illinois	0	50,000	3,000	53,000
Contel Illinois	IBEW	Illinois	0	4,000	35,000	39,000
GTECC	IBEW 824	Florida	0	28,000	2,000	28,000
Florida	IBEW 824	Florida	0	0	150,000	150,000
New York	CWA 1111	New York	0	0	5,000	5,000
Contel NY\Vermont	IBEW 363,1725	New York	0	3,000	55,000	58,000
Contel NY\Vermont	IBEW 2325	Vermont	0	3,000	10,000	13,000
Iowa	IBEW 204	Iowa	0	0	2,000	2,000
Nebraska	IBEW 204	Nebraska	0	0	2,000	2,000
GTE Supply	-	-	0	0	2,000	2,000
Contel Southwest	IBEW 57	Utah	0	0	5,000	5,000
Contel NMAZ	CWA 7019	New Mexico	0	0	3,000	3,000
Contel NMAZ	CWA 7019	Arizona	0	0	5,000	5,000
GTE Southwest	CWA 8171	Texas	0	0	150,000	150,000
GTE Southwest	CWA 8171	New Mexico	0	0	3,000	3,000
GTE Southwest	CWA 8171	Arkansas	0	0	7,000	7,000
GTE Pennsylvania	IBEW 1636	Pennsylvania	0	0	1,000	1,000
GTE Northwest	CWA 7670	Idaho	0	0	43,000	43,000
GTE Northwest	CWA 7670	Montana	0	0	5,000	5,000
GTE Northwest	CWA 7670	Washington	0	0	27,000	27,000
GTE Northwest	IBEW 89	Washington	0	0	14,000	14,000
GTE Midwest	CWA 7172,7471	Iowa	0	0	20,000	20,000
GTE Midwest	CWA 7172,7471	Nebraska	0	0	7,000	7,000
Alabama	CWA 3671,3672	Alabama	0	0	10,000	10,000
Contel Alabama	CWA 3674	Alabama	0	0	5,000	5,000
Customer Network	IBEW 543	-	0	0	5,000	5,000
Contel of North Dakota	IBEW 949,1716	North Dakota	0	2,000	0	2,000
Contel of Iowa\Nebraska	IBEW 204	Iowa	0	1,000	0	1,000
Contel of Iowa\Nebraska	IBEW 204	Nebraska	0	1,000	0	1,000
GTE South - Durham	IBEW	North Carolina	1,766,145	0	0	1,766,145
GTE South	IBEW	Georgia	930,556	0	0	930,556
GTEL	CWA	CWA	1,160,678	0	0	1,160,678
GTE North	CWA	Indiana	2,244,395	0	0	2,244,395
GTE South	CWA	Kentucky	3,256,161	0	0	3,256,161
GTE South - Monroe	CWA	North Carolina	128,309	0	0	128,309
GTE North	IBEW	Ohio	1,708,534	0	0	1,708,534
GTE North	IBEW	Michigan	3,445,880	0	0	3,445,880
GTE South	IBEW	West Virginia	306,008	0	0	306,008
Contel of North Carolina	CWA	North Carolina	864,044	0	0	864,044
GTE South	IBEW	South Carolina	1,333,149	0	0	1,333,149
GTE North	IBEW	Illinois	3,333,536	0	0	3,333,536
GTE North	IBEW	Indiana	2,167,710	0	0	2,167,710
GTE North	IBEW	Missouri	296,276	0	0	296,276
California	CWA	California	27,134,501	0	42,063,000	69,217,501
Contel of California	CWA 9477,9408	California	0	0	1,365,535	1,365,535
Contel of California	IBEW 543	California	0	0	10,434,485	10,434,485
Hawaii	IBEW 1357	Hawaii	0	10,600,000	13,100,000	23,700,000
Tennessee	IBEW 1067	Tennessee	0	18,000	900,000	918,000
Contel Arkansas	CWA 6573	Arkansas	0	0	1,400,000	1,400,000
GTE Northwest	IBEW 89	Oregon	0	0	2,200,000	2,200,000
Contel Northwest	IBEW 89	Oregon	0	0	400,000	400,000
Wisconsin	CWA 7177	Wisconsin	0	0	4,300,000	4,300,000
Contel Minnesota	IBEW 949,1716	Minnesota	686,580	65,810	1,800,000	2,245,200
GTE Southwest	CWA 8171	Oklahoma	0	0	1,500,000	1,500,000
Totals			50,725,482	10,844,610	79,980,000	141,550,092

Prefunding Contributions are boldfaced. Other amounts represent reimbursement for current year claims payments made from the trust.

ATTACHMENT VI

GTE COMPENSATION PER EMPLOYEE

GTE Compensation per Employee *
Tier 1 Entities Only

EXHIBIT VI

	<u>1992</u>	<u>1993</u>
A. Expensed Wages and Salaries (\$000) **	\$2,335,751	\$2,257,979
Expensed % of Wages	83.12%	83.12%
Capital % of Wages ***	16.88%	16.88%
Total Wages and Salaries (\$000)	\$2,810,095	\$2,716,529
B. Benefits (\$000) ****	\$337,801	\$652,982
Expensed % of Benefits	83.12%	83.12%
Capital % of Benefits ***	16.88%	16.88%
Total Benefits (\$000)	\$406,402	\$785,590
C. Total Compensation (A) + (B)	\$2,742,153	\$3,043,569
D. SFAS-106 Amount in (B) (\$000) *****	-----	\$314,847
E. Employees at End of Year *****	70,040	63,040
F. Compensation per Emp. (\$) (C)/(E)	\$39,151	\$48,280
G. Percent Change from Prior Year		23.32%
H. Benefits as % of Total Comp.	14.82%	25.81%
I. SFAS-106 AS % of Total Comp.	-----	10.34%

* Includes Contel

** ARMIS 43-02, Table I-1, Income Statement Accounts, Row 720, Column (ac)

*** Attachment VII Line 7 divided by Line 5 - Line 6

**** ARMIS 43-02, Table I-1, Income Statement Accounts, Row 720, Column (ad)

***** Attachment VII Lines 1 + 2 + 3 less nontier one entities = \$657,721 times
the regulated percentage of 89%.

***** ARMIS 43-02, Table I-1, Income Statement Amounts, Row 830, Column (bb)

ATTACHMENT VII

SUMMARY OF EXOGENOUS OPEB COSTS

SUMMARY OF EXOGENOUS OPEB COSTS (000 OMITTED)

LINE NO.	EXPENSE IMPACT OF SFAS 106 ADOPTION	GTE TELEPHONE OPERATING COMPANY
1	AMORTIZATION OF TRANSITION BENEFIT OBLIGATION	110,005
2	INTEREST COST	177,340
3	RETURN ON PLAN ASSETS	(7,813)
4	PAY-AS-YOU-GO EXPENSE	<u>(68,816)</u>
5	INCREMENTAL FAS-106 EXPENSE	210,716
6	LESS:	
6	-AMOUNT ASSIGNED TO NONREGULATED OPS. (86-111)	(27,327)
7	-REGULATED AMOUNT TO BE CAPITALIZED	<u>(30,952)</u>
8	SUBTOTAL	152,437
9	AMOUNT NOT REFLECTED IN GNP-PI PER GODWINS STUDY	<u>84.8%</u>
10	AMOUNT SUBJECT TO SEPARATIONS (L8 X L9)	129,267
11	AVERAGE INTERSTATE ACCESS FACTOR	21.01298%
12	INTERSTATE ACCESS EXPENSE RESULTING FROM ADOPTION OF SFAS 106 (L10 X L11)	<u>27,163</u>
<u>RATE BASE IMPACT OF SFAS 106 ADOPTION</u>		
13	CAPITALIZED PORTION OF EXPENSE (L7)	30,952
14	UNFUNDED LIABILITY (L8)	(152,437)
15	DEFERRED TAX IMPACT	<u>42,989</u>
16	NET RATE BASE IMPACT SUBJECT TO SEPARATIONS	(78,516)
17	AVERAGE INTERSTATE ACCESS FACTOR	<u>22.62810%</u>
18	INTERSTATE ACCESS RATE BASE IMPACTS (L16 X L17)	(17,767)
19	AUTHORIZED INTERSTATE ACCESS ROR	<u>11.25%</u>
20	NET INCOME EFFECT OF RATE BASE IMPACTS (L18 X L19)	(1,999)
21	GROSS TO NET MULTIPLIER	<u>1.4784</u>
22	REVENUE REQUIREMENT OF RATE BASE IMPACTS OF SFAS 106 ADOPTION (L20 X L21)	(2,955)
23	AMOUNT NOT REFLECTED IN GNP-PI PER GODWINS STUDY	<u>84.8%</u>
24	RECOVERY OF RATE BASE SOUGHT (INTERSTATE ACCESS)	(2,506)
25	RECOVERY OF EXPENSE SOUGHT (INTERSTATE ACCESS) (L12)	<u>27,163</u>
26	NET RECOVERY SOUGHT (INTERSTATE ACCESS) DUE TO IMPLEMENTATION OF SFAS 106	<u>24,657</u>

NOTE: LINES 11, 17, AND 21 ARE COMPOSITE FACTORS BASED UPON THE TOTAL STUDY AREA RESULTS.


SUMMARY OF EXOGENOUS OPEB COSTS (000 OMITTED)

LINE NO.	EXPENSE IMPACT OF SFAS 106 ADOPTION	GTE SYSTEM TELEPHONE COMPANY
1	AMORTIZATION OF TRANSITION BENEFIT OBLIGATION	33,773
2	INTEREST COST	58,964
3	RETURN ON PLAN ASSETS	(1,178)
4	PAY-AS-YOU-GO EXPENSE	<u>(47,014)</u>
5	INCREMENTAL FAS-106 EXPENSE	44,545
	LESS:	
6	-AMOUNT ASSIGNED TO NONREGULATED OPS. (86-111)	(812)
7	-REGULATED AMOUNT TO BE CAPITALIZED	<u>(8,323)</u>
8	SUBTOTAL	35,410
9	AMOUNT NOT REFLECTED IN GNP-PI PER GODWINS STUDY	<u>84.8%</u>
10	AMOUNT SUBJECT TO SEPARATIONS (L8 X L9)	30,028
11	AVERAGE INTERSTATE ACCESS FACTOR	21.69050%
12	INTERSTATE ACCESS EXPENSE RESULTING FROM ADOPTION OF SFAS 106 (L10 X L11)	<u>6,513</u>
	<u>RATE BASE IMPACT OF SFAS 106 ADOPTION</u>	
13	CAPITALIZED PORTION OF EXPENSE (L7)	8,323
14	UNFUNDED LIABILITY (L8)	(35,410)
15	DEFERRED TAX IMPACT	<u>10,786</u>
16	NET RATE BASE IMPACT SUBJECT TO SEPARATIONS	(16,291)
17	AVERAGE INTERSTATE ACCESS FACTOR	<u>25.01070%</u>
18	INTERSTATE ACCESS RATE BASE IMPACTS (L16 X L17)	(4,074)
19	AUTHORIZED INTERSTATE ACCESS ROR	<u>11.25%</u>
20	NET INCOME EFFECT OF RATE BASE IMPACTS (L18 X L19)	(458)
21	GROSS TO NET MULTIPLIER	<u>1.4991</u>
22	REVENUE REQUIREMENT OF RATE BASE IMPACTS OF SFAS 106 ADOPTION (L20 X L21)	(687)
23	AMOUNT NOT REFLECTED IN GNP-PI PER GODWINS STUDY	<u>84.8%</u>
24	RECOVERY OF RATE BASE SOUGHT (INTERSTATE ACCESS)	(583)
25	RECOVERY OF EXPENSE SOUGHT (INTERSTATE ACCESS) (L12)	<u>6,513</u>
26	NET RECOVERY SOUGHT (INTERSTATE ACCESS) DUE TO IMPLEMENTATION OF SFAS 106	<u>5,930</u>

NOTE: LINES 11, 17, AND 21 ARE COMPOSITE FACTORS BASED UPON THE TOTAL STUDY AREA RESULTS.

Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Direct Case" have been mailed by first class United States mail, postage prepaid, on the 14th day of August, 1995 to the parties on the enclosed list.



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